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UPDATE

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Global Macro Commentary | Global

September 16: Fed Hike Flattens Curve

Fed raised rates and signaled further tightening; US curve twist-flattened; oil fell; UK gilts rallied; USD strengthened broadly; EM FX weakened; DXY at 100.32 (+0.7%); US 10y at 5.02 (+2.1bp).

The Fed's renewed inflation focus drove front-end US yields and the dollar higher, while falling breakevens, weaker oil, and long-end demand produced a pronounced flattening across the Treasury curve.

Developed Markets

- **US rates twist-flattened after the Fed raised rates for the first time since 2023 and Chairman Warsh reiterated that inflation remained too high (2y: +7.3bp; 30y: -0.5bp).** The front end extended its sell-off during the press conference as markets added expectations for further tightening, while the 10y yield finished at 5.02 (+2.1bp). Longer maturities outperformed as the Fed's inflation message initially reinforced confidence that tighter policy could contain longer-run price pressures. Breakevens tightened across the curve, led by the front end (2y: -8.1bp; 10y: -5.0bp; 30y: -3.0bp), consistent with the disinflationary interpretation of the hike. Earlier stronger consumer spending and import-price data had supported the case for tighter policy, while the Atlanta Fed's growth tracker was also revised higher. The post-meeting configuration therefore left policy-sensitive yields higher but long-duration yields broadly unchanged to lower.

- **US risk assets weakened as the initially orderly reaction to the Fed decision gave way to softer equities during Warsh's press conference (S&P 500: -0.4%; VIX: +3.0%)**. Financials underperformed (-1.6%), while the energy sector fell 3.0% alongside lower crude prices; IT was comparatively resilient (+0.1%). Brent declined 3.0% and WTI fell 3.6% after reports pointed to improving oil supply conditions, including potential restoration of Saudi pipeline capacity and normalization of Libyan output. The drop in energy prices reinforced the decline in inflation compensation even as nominal front-end yields moved higher. Gold also weakened 0.7% as both the dollar and short-term US yields increased. The combination left the market pricing tighter near-term monetary conditions without a corresponding rise in long-run inflation compensation.

- **The dollar strengthened broadly as the Fed hike and Warsh's inflation emphasis widened the near-term policy differential in favor of USD (DXY: +0.7%).** EUR/USD fell 0.7% and GBP/USD declined 0.7%, while USD/CHF rose 0.9% despite the franc's usual defensive characteristics. Nordic currencies also weakened, with USD/NOK up 1.0% and USD/SEK up 0.9%, as

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the decline in oil added pressure to NOK. AUD/USD fell 0.6% and NZD/USD declined 0.8%, consistent with a firmer dollar and tighter US financial conditions. USD/CAD rose 0.5% as weaker oil provided an additional headwind for CAD. The broad nature of the move suggested the Fed repricing dominated individual G10 catalysts.

- **The JGB curve started the Tokyo session in a twist steepening fashion.** The steepening pressure was likely driven by headlines regarding an increase in defense spending released Tuesday. However, selling pressure in the super-long sector eased ahead of the BoJ's JGB purchase operations in the 3-5 year, 5-10 year, and over-25-year buckets. In the BoJ's purchase operations, bid-to-cover ratios declined from the previous operation across all buckets, and the outcome broadly suggested less demand for selling. Following the operation results, sectors excluding the front end richened in the afternoon session. While the richening in the medium- to long-term sector moderated toward the close, the super-long sector maintained its strength through the end of trading. That said, today's strength in JGBs was likely driven primarily by short covering. In the absence of a clear catalyst, the move didn't become a meaningful rally ahead of the BoJ meeting. By Tokyo close, the JGB curve bull-flattened; 2y JGB rallied by 1.0bp to 1.845%, 10y JGB rallied by 3.5bp to 2.995%, 30y JGB rallied by 4.0bp to 4.11%, on simple yield basis. TONA-OIS also bull-flattened but underperformed JGBs except 2y sector. XCCY basis tightened across the curve.

- **In the euro area, the curve bull-steepened, with the German 2y yield closing ~4bp lower in the London session.** The move came amid receding Brent and natural gas prices, both of which fell roughly 3% over the London session. In the EGB space, spreads to Germany tightened in the belly and long end, with BTPs slightly outperforming and the 10y BTP/Bund spread closing ~2bp tighter. Meanwhile, EU Economy Commissioner Dombrovskis said Italy might still manage to exit the EU's excessive deficit procedure if its 2025 deficit is revised below 3% of GDP in data due next week (see our related piece on Italy here). The ECB published an update on its wage tracker today, which barely moves through 2026 but shows a slight uptick in negotiated wage growth thereafter, to 2.7% y/y in 1Q27 and 2.8% y/y in 2Q27, in line with adjustments to higher inflation. In the swap space, curves also steepened, mostly at the long end, where 10s30s steepened by ~3bp. Inflation swaps closed lower, with the 5y down ~4bp, while ECB hike expectations remained relatively stable at a cumulative ~35bp by year-end.

- **In the UK, gilts also bull-steepened and outperformed EGBs across the curve, with the 2y closing ~13bp lower by the end of the London session.** The main data point was the inflation print, which came in line with expectations, rising on higher fuel prices and aided by a discounted tourism season in Europe. Nevertheless, by the close, the cash curve had steepened by ~4bp in 2s10s, while in swap space 5s10s and 10s30s both steepened by ~3bp. Inflation swap moves were comparable to those in the euro area, while rates implied by short-term interest-rate futures closed 17bp lower in reds

and 14bp lower in greens. Pricing for the December BoE meeting also moved ~7bp lower. For tomorrow's MPC meeting, markets are broadly expecting a hold, with only a ~9% implied probability of a hike.

Emerging Markets

- **AxJ currencies traded mixed while rates mostly rallied following the move in global rates and a 1.5% decline in oil prices ahead of the FOMC decision.** KRW underperformed, weakening 0.3% amid media reports of a Korea company potentially manufacturing chips in the US, a 1.4% rise in KOSPI, and $1.3bn equity outflows from foreign investors. Korea rates outperformed, with 5y and 10y NDIRS falling 7-8bp even as 3m CD fixing rose 4bp. CNH strengthened 0.1% amid a lower USD/CNY fixing (6.7628; P: 6.7670) and Hong Kong's five-year plan pledging more measures to deepen its role as a global offshore RMB hub. China rates remained stable as PBoC injected RMB113bn liquidity via OMO.

- **TWD outperformed, gaining 0.2% as equity outflows eased (-$643mn; P: -$2.0bn).** THB gained 0.1% amid a 1.2% rise in gold prices and Finance Minister Ekniti highlighting benefits from THB depreciation, while the 1s5s NDTHOR curve bull-flattened 1bp following the regional trend. INR was little changed despite lower oil prices and unconfirmed reports of RBI USD sales, while 5y INR NDOIS yield fell 3bp in a bull-flattening as the RBI drained INR2.9tr of liquidity via two overnight VRRR auctions and conducted a INR240bn T-bill auction as planned.

- **LatAm assets were doing very little ahead of the FOMC before coming under pressure following the decision, while oil fell almost 3%.** FX in the region traded weaker post-FOMC, with MXN underperforming, depreciating ~0.63% after falling to session lows immediately following the decision. CLP and COP weakened ~0.39% and ~0.36%, respectively, with lower oil weighing on COP, while BRL pared an earlier advance to close ~0.21% lower ahead of the Copom decision. PEN was the sole outperformer, appreciating ~0.07%. Rates in the region traded mixed, with the Soberano curve underperforming as 2032 PeruGBs moved ~10bp higher. COP IBR outperformed, with the 1y moving ~6bp lower after Colombia's activity data surprised materially to the downside, reinforcing expectations for BanRep to remain on hold through year-end. Mexico was closed for a local holiday.

- **CEEMEA currencies broadly weakened as the Fed's rate hike and hawkish messaging drove USD higher.** PLN underperformed the region (USD/PLN: +1.1%; EUR/PLN: +0.5%), while ZAR and CZK weakened 0.9% and 0.8% against USD, respectively, and HUF declined 0.7%. The move accelerated during Chairman Warsh's press conference as markets added to expectations for further Fed tightening and US front-end yields moved higher. ZAR also faced a modest headwind from lower gold prices (-0.7%), while PLN

weakened to its lowest level against EUR since November 2024. Overall, the stronger dollar and higher US policy-rate expectations outweighed the support to regional inflation dynamics from lower oil prices (Brent: -3.0%).

Central Bank Monitor

Developed Markets

- In Sweden, **Riksbank** published its August business survey today, noting that Swedish companies report the economic situation has improved since spring, with fears that the Middle East conflict would delay the recovery having not materialized. Companies described cost increases from the conflict as manageable, and household demand as now stronger, with the overall outlook viewed more positively.
- In Canada, **BoC** released its Summary of Deliberations from the September 2 rate decision today, in which the Governing Council warned that a rate hike may be warranted should elevated fuel prices spill over into broader goods and services inflation. Members agreed that energy-related inflation risks had increased, while also debating the degree of slack in the economy and the impact of renewed US tariff escalation on growth and whether it could offset inflationary pressure.
- In the Euro Area, **ECB** published its September wage tracker today, projecting euro-area wage growth of 2.7% in Q1 2027 and 2.8% in Q2 2027 — stronger than the second half of 2026 but well below the 5.2% peak seen in 2024. The ECB noted the lower wage tracker readings in the first half of 2026 reflect easing labour market pressures, while the bank continues to evaluate inflation risks stemming from the Middle East conflict.
- **US September FOMC Rate Decision (Upper Bound)**: 4.0% (C:4%; P:3.8%). The Fed hiked 25bp moving the fed funds target range to 3.75-4.0%. There were no dissents. The dots project one more 25bp hike this year and no change in 2027, perhaps signaling that the Fed is ready to undo the insurance cuts from 2025. In the SEPs, the Fed still sees a resilient economy with stable unemployment rate, and a gradual descent in inflation. Economic projections changed little. The main surprise was the upward revision to inflation, especially taking into account the upcoming revisions. Risks to growth and unemployment are balanced but tilted toward stronger outcomes relative to the June projections. Inflation risks remain skewed to the upside.

Emerging Markets

- In China, **PBoC Governor Pan** wrote in an article that China's financial structure is undergoing profound changes, with the share of indirect



financing (mainly bank lending) declining while the share of direct financing (including bonds and equities) has been steadily growing in recent years. He noted that these changes reflect the dynamic evolution of the stage of economic development and the transition between old and new growth drivers. He added that the strength of financial support for the real economy cannot simply be measured by the growth rate of credit as financial markets have advantages in providing financing to technologically advanced, high-risk and high-return innovative industries, resulting in a healthy substitution and diversion away from loans. He highlighted that slower growth in overall financing helps keep macro leverage ratios broadly stable, and slower but higher-quality loan growth may become one of the new norms. He noted that China needs to prevent overall credit growth from outpacing the needs of the real economy. Pan added that the PBoC will reduce focus on loan growth and continue strengthening the role of the policy rate.

- **Chile Monetary Policy Minutes**: The September minutes reinforced the balanced, meeting-by-meeting stance, with holding at 4.50% the clearly dominant option. The main dovish development was activity, as the Board acknowledged that weakness has broadened into domestic demand through softer consumption, weak investment, deteriorating confidence and continued formal job destruction. Members remained comfortable with inflation convergence to 3% in 2Q27 but noted that a more persistent slowdown could eventually push inflation below target. Relative to our September view, the minutes validate the softer domestic diagnosis but show it has not yet translated into an easing debate. With the Fed now expected to hike twice and oil still elevated, our economists expect BCCh to remain at 4.50% through year-end. Markets price only ~9bp of hikes through year-end, broadly signaling a hold.
- **Colombia BanRep**: today, co-director Mauricio Villamizar said in a podcast with ANIF research center. that frontloading rate hikes is less costly for GDP than waiting, providing a hawkish signal, although economists surveyed by BanRep still see the next move as a 25bp hike in December.

Exhibit 1: G4 Rates Closes

	US			Germany			UK			Japan		
Tenor	16-Sep	1d Δ (bp)	2wk	16-Sep	1d Δ (bp)	2wk	16-Sep	1d Δ (bp)	2wk	16-Sep	1d Δ (bp)	2wk
2y	4.736	7.3		3.212	(4.0)		4.757	(13.2)		1.845	(0.9)	
3y	4.825	6.0		3.242	(3.3)		4.805	(12.6)		2.031	(2.4)	
5y	4.881	5.3		3.312	(3.7)		4.846	(11.6)		2.279	(3.4)	
7y	4.949	3.8		3.385	(3.5)		5.078	(9.7)		2.695	(4.5)	
10y	5.023	2.1		3.505	(3.0)		5.296	(9.1)		2.994	(4.0)	
20y	5.399	(0.4)		3.843	(2.5)		5.799	(7.0)		3.845	(4.8)	
30y	5.361	(0.5)		3.870	(2.0)		5.859	(6.6)		4.103	(4.5)	

Exhibit 2: Macro Closes

Majors				EM				Equities / Commodities			
Spot	16-Sep	1d Δ (%)	2wk	Spot	16-Sep	1d Δ (%)	2wk	Index	16-Sep	1d Δ (%)	2wk
DXY	100.32	0.7		CNH	6.71	0.0		S&P	7551.81	(0.4)	
EUR	1.147	(0.7)		INR	95.96	(0.0)		Stoxx	6266.50	0.5	
GBP	1.338	(0.7)		THB	33.28	(0.1)		FTSE	10688.47	0.3	
JPY	156.26	0.7		KRW	1376.10	0.9		Nikkei	63923.00	0.7	
CHF	0.826	0.9		ZAR	16.39	0.9		VIX	17.71	3.0	
AUD	0.709	(0.6)		MXN	17.25	0.6		Gold (S)	4263.65	(0.7)	
CAD	1.399	0.5		BRL	5.15	0.0		WTI (Fut)	102.03	(3.6)	

Exhibit 3: Inflation Closes

US TIPS				10y Real Yields, BEI							
Tenor	16-Sep	1d Δ (bp)	2wk	10y	16-Sep	1d Δ (bp)	2wk	10y	16-Sep	1d Δ (bp)	2wk
5y	2.510	11.5		DBRi	1.121	(1.2)		BTPi	2.270	(2.9)	
BEI	2.356	(6.3)		BEI	2.236	(2.4)		BEI	2.125	(2.5)	
10y	2.687	7.1		UKTi	1.809	(6.9)					
BEI	2.333	(5.0)		BEI	3.422	(2.6)					
30y	3.112	2.5		JGBi	0.885	(2.7)					
BEI	2.252	(3.0)		BEI	2.100	(1.6)					

Exhibit 4: G4 Central Banks

Central Bank OIS															
Fed	Implied	1d Δ (bp)	Total Δ	ECB	Implied	1d Δ (bp)	Total Δ	BOE	Implied	1d Δ (bp)	Total Δ	BOJ	Implied	1d Δ (bp)	Total Δ
EFFR (9/15)	3.630	0.0	--	EONIA (9/15)	2.190	0.0	--	SONIA (9/15)	3.730	0.0	--	TONAR (9/15)	0.978	0.0	--
09/16/26	3.857	3.9	(0.3)	10/29/26	2.571	2.6	(0.9)	09/17/26	3.753	3.8	(3.6)	09/18/26	1.226	0.2	24.8
10/28/26	4.008	4.0	2.5	12/17/26	2.788	2.8	(1.1)	11/05/26	3.962	4.0	(6.5)	10/30/26	1.281	(1.0)	30.3
12/09/26	4.202	4.2	4.7	03/11/27	3.085	3.1	(4.3)	12/17/26	4.112	4.2	(10.5)	12/18/26	1.449	0.4	47.1
01/27/27	4.302	4.2	6.0	04/29/27	3.210	3.2	(3.6)	02/04/27	4.301	4.4	(9.4)	01/22/27	1.526	(0.5)	54.8
								03/18/27	4.438	4.6	(13.5)	03/19/27	1.623	(1.4)	64.5
												04/28/27	1.701	(2.7)	72.3

Economic Releases

Developed Markets

- **US August Retail Sales Advance m/m**: 1.2% m/m(MSe:0.7%; C:0.8%; P:-0.6%). Headline retail sales rose 1.2% m/m, and control group sales rose 1.4%, both much stronger than our and consensus expectations. Revisions were minimal. We are tracking 3Q real consumption at 2.9% (q/q a.r.) vs 2.1% before the print and 3Q GDP at 2.4% vs. 2.0% before. Real goods consumption is tracking +2.8% in 3Q and real services +3.0%. We expect August real consumption up 0.4% m/m. Nonstore sales rebounded strongly from the weak July, and restaurant sales were strong for the fifth month in a row. Within control, every category rose m/m. Consumption surprised us to the upside slightly in 1H, and with this print, the strength extends to 3Q. The consumer has been resilient through high inflation.
- **US August Import Price Index m/m**: 0.7% m/m(C:0.5%; P:-0.4%). We keep our forecast for August core PCE at 0.25%m/m after import prices. Headline PCE is forecasted at 0.31%m/m. Our forecast is consistent with core PCE running at a 3.26% on a y/y basis and the six- and three-month paces at 3.19% and 2.74%, respectively. Our numbers incorporates our best estimate of the methodology changes that will be introduced with the September 30 PCE release.
- **Sweden August Unemployment Rate (SA)**: 8.9% (MSe: 8.4%; C: ; P: 8.6%). The unemployment rate unexpectedly rose to 8.9%, moving in the opposite

direction to expectations, which had anticipated improvement on the back of stronger vacancy momentum and lower lay-offs.

- **UK August Services CPI**: 3.4% y/y (MSe: 3.6% y/y; C: 3.5%; P: 3.4%); **RPI**: 3.4% y/y (MSe: 3.5% y/y; C: 3.5%; P: 3.2%); **CPI**: 3.1% y/y (MSe: 3.1% y/y; C: 3.1%; P: 2.9%); **Core CPI**: 2.6% y/y (MSe: 2.6% y/y; C: 2.6%; P: 2.6%). Absent energy price shocks, headline inflation would have been between 2.2–2.4% since April, with pay growth at target-consistent levels. Services inflation

  reflecting less travel and more staycations — accommodation services prices fell 2.5% m/m — while underlying services inflation edged up 5 basis points on high catering prices. Core CPI came in at 2.6% y/y, in line with both

  England's own projection. The Bank of England's overall forecast was exceeded by 25 basis points, primarily due to energy costs. With natural gas prices continuing to rise, a 4% headline rate is becoming more likely. A 6:3 vote for a hold is anticipated at tomorrow's meeting, though risks of hikes in November and February remain given current commodity prices and the absence of government action to reduce headline inflation.

- **Italy August CPI (final)**: 3.3% y/y (MSe: 3.3% y/y; C: 3.3%; P: 3.3%); HICP (final): 3.2% y/y (MSe: 3.2% y/y; C: 3.2%; P: 3.2%).
- **Euro Area July Industrial Production ex Construction**: -0.1% m/m (MSe: -0.2% m/m; C: -0.2%; P: 0.0%).

Emerging Markets

- **Brazil July Economic Activity Index (IBC-Br):** 1.14% y/y (P: 2.35%; C: 1.10%) Activity was broadly in line with consensus but slowed materially from the prior reading.
- **Colombia July Industrial Production**: -0.3% y/y (P: 3.9%; C: 2.1%) Industrial production contracted against expectations for growth, with manufacturing weakness broad-based and mining providing only a partial offset. The downside surprise reinforces continued weakness on the supply side.
- **Colombia July Retail Sales**: 5.3% y/y (P: 14.7%; C: 9.8%) Retail sales materially undershot consensus, although sequential momentum remained positive at +0.5% m/m sa and the 3m/3m annualized pace remained strong at 11.4%. The data point to moderation in consumption rather than outright weakness; combined with softer industrial activity, the prints are consistent with our revised call for BanRep to hold at 12.00% through year-end rather than deliver a final 50bp hike.

The Day Ahead

Developed Markets

- Wednesday, 6:45pm ET - **New Zealand 2Q GDP (q/q)** (C: 0.1%; P: 0.8%); GDP (y/y) (C: 2.2%; P: 1.5%). The prior readings correspond to

New Zealand's 1Q GDP outturn of 0.8% q/q and 1.5% y/y.

- Thursday, 8:00am BST - **ECB Executive Board member Philip Lane** speaks, chairing the Jean Monnet lecture "Economic Size and Economic Power" at the ECB Annual Research Conference 2026 in Frankfurt, Germany. The ECB schedule confirms Lane is chairing the lecture at 9:00am CET, equivalent to 8:00am BST.
- 9:00am BST - **Norway 3Q Regional Network Survey**. We will primarily pay attention to activity expectations and capacity utilisation.
- 10:00am BST - **Euro Area August core HICP (final)** (MSe: 2.4% y/y; C: 2.4%; P: 2.4%); **HICP (final)** (MSe: 3.3% y/y; C: 3.3%; P: 3.3%). In line with flash estimate.
- 11:00am BST - **ECB Governing Council member and Bank of Finland Governor and Chairman Olli Rehn** speaks on monetary policy and Europe's economic outlook in an OMFIF Live broadcast in London. OMFIF confirms the September 17 session and Rehn's current Bank of Finland title.
- 12:00pm BST - **UK BoE Rate Decision** (MSe: 3.75%; C: 3.75%; P: 3.75%). We expect a 6:3 vote for a hold.
- 8:30am ET - **US September Philadelphia Fed Business Outlook** (C:32.5; P:47.4). We are tracking September ISM manufacturing PMI at 54.3. The index was 54.6 in August.
- 8:30am ET - **US September Initial Jobless Claims** (MSe:200k ; C:206.5k; P:206k). We expect new jobless claims hover around 200k in the weeks surrounding Labor Day. Both new and continuing claims are below their levels of a year ago. Layoffs have slowed further, but hiring too remains very slow.
- 8:30am ET - **US August Housing Starts** (MSe:1365k ; C:1319k; P:1239k). We expect single-family starts rebound from last month's soft print, +13% m/m to 915k, as permits and the Housing Market Index did not show the same weakness. This estimate assumes there is also some upward revision to July's previously soft print. If not, the rebound could likely be larger. We expect single-family permits unchanged at 895k. On the multifamily side, we expect starts rise 4.4% m/m to 450k while permits decline 3.5% to 530k.

Emerging Markets

- Wednesday, 5:30pm ET - **Brazil Monetary Policy Meeting** (Mse: 13.75%; P: 14.00%; C: 13.75%) Our economists expect the BCB to ease by 25bp following weaker-than-expected activity and softer inflation readings. Markets are pricing a ~98% probability of a 25bp cut, but only ~38bp of cumulative easing over the next three months and an implied terminal rate near 13.60% by December.
- **Taiwan September CBC Monetary Policy Meeting** (MSe: 2.0%; C: 2.0%; P: 2.0%)

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