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UPDATE

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Global Macro Commentary | North America

October 26: Brazil Election-Driven Risk-Off

Brazilian assets sell off after Lula's re-election; US equities rally on renewed optimism; Treasuries twist-flatten; French bonds rally on rating reprieve; oil declines amid Iran talks; DXY at 102.03 (+0.2%); US 10y at 4.99 (-0.6bp)

Global markets traded with mixed risk sentiment as Brazil's election surprise triggered an EM sell-off, while renewed optimism supported US equities and long-end Treasuries outperformed ahead of the Fed meeting.

Developed Markets

- **US Treasuries flattened as front-end yields edged higher while longer-dated bonds gained, reflecting continued uncertainty around the Federal Reserve's policy outlook.** The 2y yield rose 3.4bp, while the 10y and 30y yields declined 0.6bp and 1.9bp, respectively. Markets remained positioned for the Fed to hold rates steady at its upcoming meeting, with persistent inflation concerns limiting expectations for near-term easing. The divergence across the curve suggested that investors remained cautious on the timing of future rate cuts, even as longer-term yields eased.
- **US equities rallied (S&P 500: +0.7%; NASDAQ: +0.8%) on renewed investor appetite ahead of a pivotal earnings week.** The IT sector outperformed (+1.5%), alongside Industrials (+1.4%), while Communication Services lagged (-1.4%) amid continued scrutiny of capital expenditures. Renewed demand for semiconductor-related equities supported broader risk sentiment, with the VIX declining 5.4% to 18.39. Meanwhile, Brent oil fell 0.8% to $115.81/bbl after Iranian officials expressed openness to regional diplomatic arrangements following renewed tensions with the US, while gold gained 0.5% to $4,016.71/oz.
- **The dollar strengthened broadly (DXY: +0.2%) as front-end US yields rose and markets remained cautious ahead of the Fed decision.** JPY underperformed among major currencies (USD/JPY: +0.4%) as the pair approached 157.6 intraday, while Japanese rates twist-flattened (2y: +1.1bp; 30y: -0.6bp) amid competing policy and safe-haven dynamics. EUR and GBP weakened against USD (EUR/USD: -0.2%; GBP/USD: -0.2%), while CHF also depreciated (USD/CHF: +0.3%). AUD and NZD each declined 0.3% against USD ahead of Wednesday's Australian CPI report and RBNZ meeting, with markets pricing roughly a 90% probability of a 25bp RBNZ hike and a 70% probability of another increase in December. Australian inflation was expected to accelerate due to higher energy prices, while stretched AUD longs and NZD shorts left the latter sensitive to a more hawkish-than-expected RBNZ policy outlook.

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- **In Japan, following the bear-flattening move in US rates on Friday, JGBs also came under pressure from the Tokyo morning session, led by the short- to medium-term sectors.** After Friday's close, Bloomberg reported comments from BoJ sources suggesting that a December rate hike remained a possibility and that the current policy rate was still some distance from the neutral rate. Accordingly, pricing for a December hike and the terminal rate recovered modestly. In the Tokyo afternoon session, JGBs gradually firmed outside the front end. With the super-long tap auction on Tuesday, the super-long sector outperformed on the curve. As of Tokyo 3pm, the JGB curve twist flattened; the 2y JGB yield sold off by 1.5bp to 1.875%, the 10y JGB rallied by 1.5 to 2.78%, and the 30y JGB rallied by 2.5bp to 3.805%. The TONA-OIS curve also twist flattened and outperformed JGBs except 2y sector. XCCY basis widened across the curve. USD/JPY traded somewhat choppily in the absence of a clear catalyst. During the morning Tokyo session, the pair rose nearly 40 pips ahead of Japanese banks' TTM fixing, but subsequently fell to 156.65 as US yields and oil prices declined.

- **In the Euro area,while the German yield curve bear-flattened over the London session, other EGBs recovered some of last week's sell-off, led by French OATs.** Following Moody's decision on Friday not to downgrade France's credit rating, contrary to market expectations, OATs opened the session strongly and continued to rally throughout London trading. By the London close, OAT/Bund spreads had tightened by around 14bp at both the 5y and 10y tenors. Spread tightening was also seen across other EGBs, with 10y BTP/Bund and Bono/Bund spreads narrowing by approximately 10bp and 6bp, respectively. While EUR inflation swaps moved only marginally over the London session, ECB hike expectations further out the curve rose slightly, with an additional 3bp of tightening priced in for the December and January meetings. Meanwhile, for this Thursday's ECB meeting, the market widely expects the ECB to hold rates, with only a 4% probability of a hike priced in. In the UK, the curve pivot-flattened, with the long end closing ~2bp lower at the 10y point and the short end closing ~2bp higher at the 2y point. In GBP swaps, the 5s10s curve flattened by ~4bp over the London session.

Emerging Markets

- **Most AxJ currencies weakened while rates traded mixed. PHP underperformed, weakening 0.5% amid local stock market weakness (PSEi: -1.5%), while 10y RPGB yield rose 4bp**. IDR fell 0.3% and 10y IndoGB yield rose 4bp, despite BI Governor Damayanti saying BI is closely monitoring FX supply and demand. Korea and Thailand rates outperformed, while KRW weakened 0.2% and THB depreciated 0.1%. KRW weakened alongside a 1.5% decline in KOSPI and $493mn of foreign equity outflows, while 2y KRW NDIRS yield fell 5bp. 10y ThaiGB rallied 5bp alongside a wider-than-expected September customs trade deficit. INR fell 0.3%; RBI Governor Malhotra commented on monetary policy and financial stability after Friday market close. India rates sold off, with 1y INR NDOIS yield rising 8bp, while RBI injected INR1.5tr via a 4-day VRR auction.

- **Brazil's surprise election outcome triggered a broad risk-off impulse across LatAm markets after President Lula da Silva was reelected on Sunday.** FX in the region traded mixed, with BRL the clear underperformer, depreciating ~8.10% after weakening as much as ~12.57% intraday, marking its largest single-day decline since 1999. B3 widened USD futures trading limits three times amid extreme volatility, while the Ibovespa fell as much as 15% intraday, triggering a circuit breaker at the open. CLP outperformed, appreciating ~0.53%, followed by MXN at ~0.50%, potentially reflecting stop-outs in regional BRL crosses. Rates in the region were dominated by unprecedented volatility in Brazilian DIs, with Jan 31 DIs moving ~275bp lower despite markets pricing out the easing cycle and embedding a structural fiscal risk premium into the long end.
- **CEEMEA currencies generally depreciated against USD amid broad dollar strength and ongoing domestic policy uncertainties.** PLN weakened 0.3% against USD as concerns around the Polish central bank's leadership and broader financial-market stability continued to weigh on sentiment, with EUR/PLN remaining broadly unchanged at 4.40. HUF depreciated 0.4% against USD, while CZK also weakened 0.4%, reflecting a broader decline across Central European currencies. South Africa's ZAR weakened 0.3% against USD despite higher gold prices (+0.5%), as elevated oil prices and broader emerging-market uncertainty weighed on risk appetite. ILS was a notable outperformer, appreciating 0.8% against USD amid renewed diplomatic efforts to reduce geopolitical tensions in the Middle East.

Central Bank Monitor

Developed Markets

- Piero Cipollone (Executive Board, ECB) said the ECB plans to launch a digital euro pilot in 2027 involving real transactions by central bank staff, while stressing that a formal decision on issuance remains contingent on the completion of EU legislation, targeted for end-2026.

Emerging Markets

- In Indonesia, **BI Governor Damayanti** said BI is closely monitoring FX supply and demand to help stabilize IDR and remains active in the market. She added that recent IDR weakness reflects normal market volatility and that BI is assessing its underlying causes.

Exhibit 1: G4 Rates Closes

	US			Germany			UK			Japan		
Tenor	26-Oct	1d Δ (bp)	2wk	26-Oct	1d Δ (bp)	2wk	26-Oct	1d Δ (bp)	2wk	26-Oct	1d Δ (bp)	2wk
2y	4.716	3.4		3.106	4.9		4.932	2.0		1.880	1.1	
3y	4.777	2.8		3.132	4.2		4.970	1.6		2.010	1.3	
5y	4.826	1.9		3.195	3.1		4.997	1.3		2.234	1.6	
7y	4.899	0.8		3.262	2.9		5.161	(0.7)		2.604	0.7	
10y	4.988	(0.6)		3.366	2.2		5.343	(1.2)		2.792	(0.4)	
20y	5.351	(1.8)		3.691	1.7		5.726	(1.3)		3.599	(0.5)	
30y	5.303	(1.9)		3.692	1.3		5.746	(1.1)		3.820	(0.6)	

Exhibit 2: Macro Closes

	Majors			EM			Equities / Commodities			
Spot	26-Oct	1d Δ (%)	2wk	Spot	26-Oct	1d Δ (%)	2wk	Index	26-Oct	1d Δ (%)	2wk
DXY	102.03	0.2		CNH	6.67	(0.0)		S&P	7676.77	0.7	
EUR	1.117	(0.2)		INR	95.19	0.3		Stoxx	6116.23	0.8	
GBP	1.334	(0.2)		THB	33.82	0.3		FTSE	10767.33	0.7	
JPY	157.50	0.4		KRW	1326.40	0.1		Nikkei	62189.65	(0.8)	
CHF	0.828	0.3		ZAR	16.65	0.3		VIX	18.39	(5.4)	
AUD	0.702	(0.3)		MXN	18.57	(0.5)		Gold (S)	4016.71	0.5	
CAD	1.401	0.1		BRL	5.42	8.8		WTI (Fut)	101.76	(1.5)	

Exhibit 3: Inflation Closes

	US TIPS			10y Real Yields, BEI							
Tenor	26-Oct	1d Δ (bp)	2wk	10y	26-Oct	1d Δ (bp)	2wk	10y	26-Oct	1d Δ (bp)	2wk
5y	2.364	2.9		DBRi	1.026	3.2		BTPi	2.507	(4.2)	
BEI	2.459	(0.9)		BEI	2.211	(0.2)		BEI	2.034	(0.5)	
10y	2.638	(0.4)		UKTi	1.844	(1.5)					
BEI	2.348	(0.3)		BEI	3.445	0.4					
30y	3.071	(1.9)		JGBi	0.703	(4.0)					
BEI	2.236	(0.2)		BEI	2.094	3.7					

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 (10/23)	3.880	0.0	--	EONIA (10/23)	2.442	0.0	--	SONIA (10/23)	3.734	0.0	--	TONAR (10/23)	1.227	0.0	--
10/28/26	3.908	3.9	0.5	10/29/26	2.450	2.4	0.2	11/05/26	3.977	4.0	0.3	10/30/26	1.231	(0.1)	0.4
12/09/26	4.109	4.1	1.8	12/17/26	2.663	2.6	2.6	12/17/26	4.094	4.1	0.6	12/18/26	1.419	0.3	19.2
01/27/27	4.198	4.2	2.5	03/11/27	2.890	2.9	3.4	02/04/27	4.313	4.3	2.3	01/22/27	1.491	(0.2)	26.4
				04/29/27	2.951	2.9	4.1	03/18/27	4.458	4.4	1.1	03/19/27	1.621	0.8	39.4
												04/28/27	1.693	0.8	46.6
												06/16/27	1.778	0.3	55.1

Economic Releases

Developed Markets

- **Germany Oct ifo Business Climate:** 90.2 (MS: 90.2, C: 90.0, P: 89.9)

Emerging Markets

- **Brazil September Current Account USD** -5.5 bn (P: -5.1 bn; C: -5.3 bn) : The deficit widened more than expected, exceeding both consensus and the previous month's reading, pointing to a modest deterioration in Brazil's external balance.
- **FGV October Consumer Confidence** 84.7 (P: 84.2) : Consumer confidence edged higher from the previous month, suggesting a modest improvement in household sentiment.

The Day Ahead

Developed Markets

- 7:45am GMT - **France Oct Consumer Confidence** (MS: 84.0, C: 85.0, P: 86.0)
- 9:00am GMT - **ECB Bank Lending Survey**

Emerging Markets

- **Chile Monetary Policy Meeting** (Mse: 4.50%; P: 4.50%) - Our economists expect the BCCh to hold at 4.50%, as weak activity keeps hikes off the table, while sticky core inflation and firmer near-term expectations leave little room for cuts. Attention will focus on forward guidance and any changes to the balance of inflation risks.
- **Mexico September Trade Balance** (P: $605.4 mn; C: -$397.4 mn) - Markets expect a reversal from the previous month's surplus to a deficit. Attention will focus on export and import dynamics to assess external demand and potential implications for MXN.
- 5:00am HKT – **Korea October Consumer Confidence** (P: 106.6)
- 7:00am HKT – **Korea 3Q Advanced GDP** (MSe: 1.2% q/q, 3.6% y/y; C: 0.8% q/q; 3.1% y/y; P: 0.6% q/q; 3.7% y/y)
- 9:30am HKT - **China September Industrial Profits** (P: 4.2% y/y)

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