13 October 2026

Reading the Markets USD

Energy to lift CPI, but core pressures in focus

Wednesday's September CPI release will be the final one before the Fed's October rate decision. We forecast headline CPI at 0.5% m/m, 3.6% y/y (below consensus at 0.6% m/m, 3.7% y/y, prior: 0.6% m/m, 3.4% y/y) and core CPI at 0.2% m/m, 2.5% y/y (in line with consensus, prior: 0.3% m/m, 2.4% y/y). Energy prices are the main driver of the expected rise in headline inflation, adding 0.28%-points to the monthly rate. Retail gasoline prices rose by more than 7% m/m on average in September, and the FOMC will closely monitor whether the cost pressure starts to feed through to other components as well.

For the Fed, the key question is whether underlying inflation pressures are broadening. Given the recent communication, with central participants showing no urgency to hike again, **we think it would take a clear upside surprise in CPI for the Fed to hike in October.**

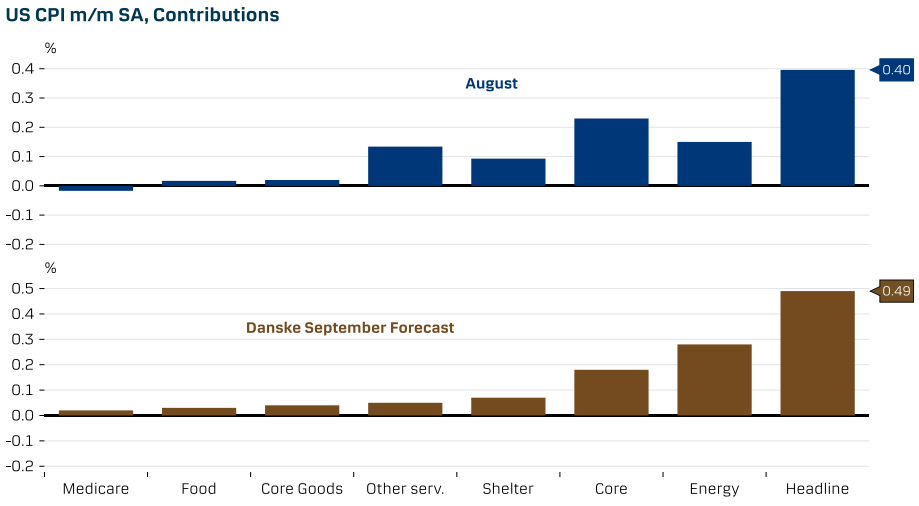
We expect core inflation to contribute 0.18%-points to headline inflation, down from 0.23%-points in August. Shelter is the biggest contributor to core inflation, at 0.07%-points. In our forecast, shelter inflation remains below its long-term average rate. Market-based rent price Indicators such as the Zillow Observed Rent Index have started to move higher in recent months, though only towards their long-term average growth rates. Shelter CPI lags changes in market-rents by 10-11 months, meaning that we expect the CPI measure to remain on a slow growth trend well into 2027.

In August, core services excluding Medicare was the biggest contributor to core inflation, at 0.13%-points. This was driven by what appeared to be a one-off increase in telephone services, which contributed 0.08%-points alone in

Key views

- **Macro:** Cyclical outlook remains healthy, even if stagnant labour supply growth weighs on real growth. GDP +2.1% in 2026, in line with consensus.
- **The Fed:** 25bp hikes in December and March. Rates held at 4.25-4.50% for the rest of 2027 (below market pricing).
- **EUR/USD:** Relative macro and monetary policy outlook maintain downward pressure on EUR/USD 12M forecast at 1.12, with risks skewed to the downside. Below consensus (1.18) and forward (1.14).
- **10Y UST:** 5.20% in 12M (below forward at 5.43%).

Chart 1: Energy to contribute most to September headline inflation



Source: Macrobond, US BLS, Danske Bank

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August and which we expect to fade in September. Core services could also be affected by higher energy prices, as airfares feed into this category. The Fed should look through this as well but remain alert to other core services subcomponents starting to rise. Upside surprises here could be a concerning sign of rising wage pressures feeding through to prices, but we do not expect this to be the case yet.

Contribution from core goods likely remained modest at 0.04%-points in September, up slightly from 0.02pp in August. We have forecast slightly above-trend growth in core goods prices due to higher material costs and lingering tariff impact, but so far, realized goods inflation has generally surprised to the downside in 2026.

Calm before the storm?

The SOFR swap curve has re-steepened in early October, as markets have pulled back from pricing aggressive rate hikes in the front-end, while long-end term premium has risen. The modest repricing has occurred largely in tandem in both EUR and USD rates, which has meant that EUR/USD FX forwards have stabilised after the rise seen in September. EUR/USD cross-currency basis has also retreated some of the modest widening that accompanied the sharpest pressure on French government bonds some 1.5 weeks ago.

For now, the bond market stress seems EUR-focused, rather than something weighing on the long-end more generally. Last week's 10y UST auction received very solid demand with the highest bid-to-cover ratio since 2016. Meanwhile, EUR FX weakened against every other G10 currency, with cyclicals (AUD, NOK) rallying alongside the USD (Chart 3). In other words, EUR/USD is not declining because of weak risk sentiment, but because for now, the fiscal stress is concentrated specifically in the euro area.

Markets have largely priced in quarterly rate hikes as a clear base case for both the ECB and the Fed (Chart 4). This means that if the CPI lands close to our expectations and confirms that the Fed can wait until December before hiking (as we expect), the market impact should remain limited.

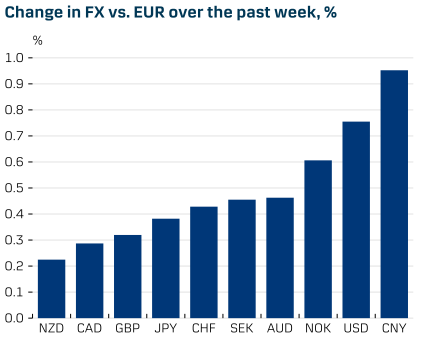
But looking towards 2027, we see a relatively higher risk that the ECB will have to end its hiking cycle short of current market expectations. Our EUR strategists question whether the ECB can hike beyond December, unless growth surprises clearly to the top side (*RtM EUR*, 8 October).

The euro area's dependence on energy imports together with tighter financial conditions increases the risk of growth slowing down more abruptly, if the energy price shock persists into the winter. The US economy is not isolated from the effects of higher interest rates either, but the pass-through is likely to happen more gradually.

Last week's data from MBA shows that higher mortgage rates are already weighing on US mortgage demand. But on a macro level, current rates are not an acute burden on consumers' disposable income or corporate profitability (Chart 5). This means that even if non-AI capex growth slows down because of rate hikes, we think that consumption and AI capex can still fuel both real growth and inflation pressure towards 2027.

The bottom line is that we remain bearish on EUR/USD and think that longer-dated FX forwards can continue to trend higher towards 2027. That said, in the near term, pricing could remain relatively stable ahead of the seemingly clear-cut October rate decisions barring a major surprise in the CPI.

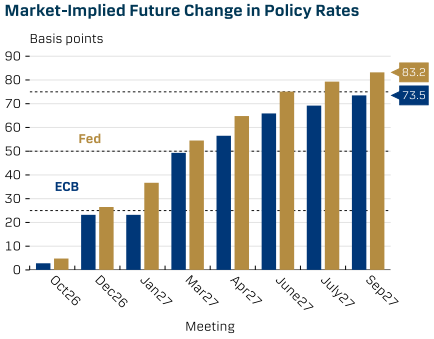
Chart 3: EUR is weakening against safe havens and cyclicals alike



Sources: Bloomberg, Danske Bank

Note: Past performance is not a reliable indicator of current or future results.

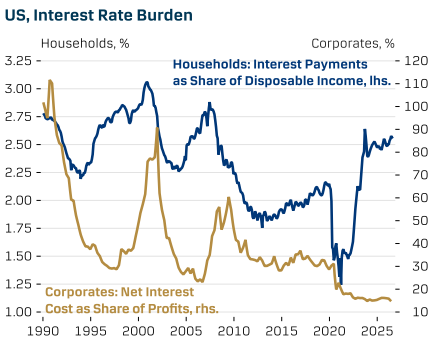
Chart 4: Markets have priced in quarterly hikes from both the ECB and the Fed until March 2027



Sources: Macrobond, Bloomberg, Danske Bank

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Chart 5: US interest rate burden remains moderate for households, and low for corporates



Sources: Macrobond, U. S. BEA, Danske Bank

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