SOCIETE GENERALE

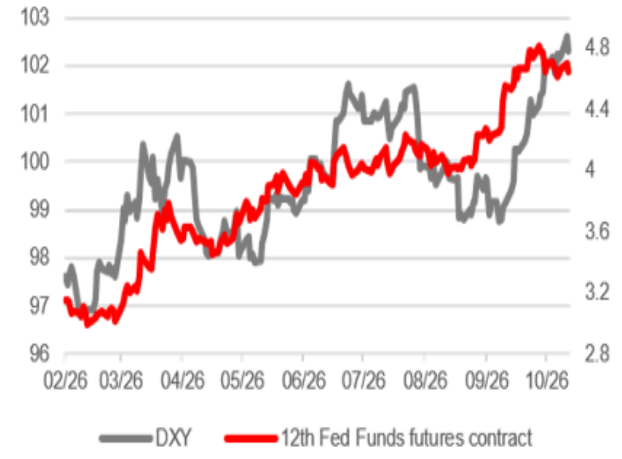
FX View - Has enough Fed tightening been priced-in now? 13 October 2026

We appear to be coming to the end of the third leg up in Fed pricing this year. These uplifts in 12-month forward pricing of (effective) Fed Funds, have each taken the Dollar higher, as the first chart shows. Repricing 1-year forward rates from 3.2% to 3.8% at the start of the Gulf crisis helped the DXY above 100; 4.2% dragged the DXY above 101 and getting rate pricing above 4.5% has seen DXY reach 102.the current pricing is just below 5% for the headline Funds rate, which is 20bp higher than the highest of the 65 forecasters in the Bloomberg survey, and 50bp above the consensus.

Questions about how high bond yields could get have been a feature of many recent conversations. The fact that 10year notes yielded 13% and Fed Funds were above 15% on my first day at work in 1984 is a reminder not to be too surprised by higher yields (the low yields of the post-GFC period were every bit as unusual as the high ones of the early 1990s), but the spike in bond yields will do some work for the Fed and tomorrow's core CPI data will have to come in well above the consensus 2.5% print, if we are to see any further uptick in market pricing of terminal Fed Funds.

The dollar has, mostly, tracked US rate expectations higher. That doesn't have to continue, however. The bond selloff has put pressure on bonds everywhere, and a 1% rise in 10yr US yields this year has sent gilts up by 93bp, BTPs by 94bp and OATs by 123bp. That brings its own narrative to the market, but if the US rate story is getting stretched, that does reinforce the notion that selling EUR/JPY and GBP/AUD here, may be a better risk-reward strategy than selling EUR/USD and GBP/USD at these levels.

The end of the third leg of the DXY rally?



Maybe it is time to short EUR/JPY and GBP/AUD, and leave the USD to its own devices for a while?



Source: SG Cross Asset Research/Forex



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