DB morning note with your coffee

Date: 26 October 2026 at 07:58:37 GMT

Good Morning,

Market Colour:

- As we hit the last week of October, markets are continuing to grapple with three major themes: France, Iran and AI
- Although less relevant for DM investors, Brazil's surprise election result overnight which could lead to a -25% currency adjusted decline in Brazilian equities today if overnight derivative contracts are a guide, will also be one to watch
- Meanwhile, disruption around the Strait of Hormuz remains a key market risk, particularly after last week's renewed rise in oil prices:
- Brent (-1.38%) is coming off its Friday's highs but still trading above $115/bbl
- In terms of data and events, we'll get the Fed's and ECB's rate decisions, AI earnings releases from 3 Mag-7 names as well as PCE Inflation data in the US
- In Asia, the KOSPI (-1.46%) is leading declines this early morning as weakness in technology shares weighs on sentiment (Nikkei -0.8%, HSI +0.53%)

Selected Headlines:

- LULA WINS BRAZIL PRESIDENTIAL ELECTION, DATAFOLHA PROJECTS
- BRAZIL ETF IN JAPAN SINKS 11% ON SURPRISE LULA ELECTION
- BOLSONARO TEAM ASKS COURT TO ANNUL RUNOFF OVER VOTING ISSUES

DB Research - LatAM Macro Notes: Brazil – What to expect when you were not expecting

- President Lula is reelected with a 3.6pp margin, from 1.8pp in 2022
- Right-leaning parties hold a significant share of seats in Congress, making coordination between the executive and legislative challenging
- The unprecedented extension of voting hours provides legal grounds to challenge the results, yet the election is unlikely to be overturned

- Rates Strategy: The election surprise is likely to result in a broad DI selloff of around 250bp, in our view
- The curve should steepen as the market reverses the risk premium compression observed since the first round
- FX Strategy: We close our long BRL/COP recommendation and update our year-end forecast for USD/BRL to 5.30
- http://research.db.com/research/TinyUrl/T7WGX

French Rating:

- Although several hundred thousand people marched and protested in France over the weekend, the more extreme scenes of the previous weekend were absent, suggesting the authorities have regained some control of the situation
- France also got a boost on Friday night as Moody's defied market expectations and maintained their Aa3 rating (negative outlook) on the sovereign
- The expected one-notch cut would only have taken it in line with S&P's A+, so shouldn't have been too destabilising
- The Euro spiked a couple of tenths very late on Friday immediately after the news and is +0.13% higher this morning, with French bond futures rising more than half of a point

Middle East:

- The situation in the Middle East is likely to remain one of the main market focuses this week, with the pause in direct US-Iran fighting looking increasingly fragile
- Reports from various media suggest Washington and Israel are considering renewed strikes after the US midterms, which are only 8 days away now, against a backdrop of a larger US military presence in the region, reduced diplomatic staffing and increasingly forceful Iranian warnings about retaliation
- Trump said to Fox yesterday that it's "getting to be decision time" on whether he will resume attacks or make a deal

G10 FX Overnight:

- Brazil: The biggest weekend development was the surprise Brazilian election result, with President Lula securing re-election after trailing Flávio Bolsonaro in the first round
- The extension of voting hours remains contentious, with Bolsonaro's campaign seeking to challenge the outcome
- The surprise prompted sharp losses in Brazilian assets during Asian trading: the Japan-listed Brazil ETF fell 11% at the open, while CME BRL futures were at one stage down more than 10%
- G10/risk: Spillover into G10 was limited while Risk sentiment remained fragile, although S&P futures edged higher during APAC and regional equities were mixed

- USD/JPY remained the most active G10 pair, briefly recovering above 157 to an intraday high of 157.22 amid apparent demand around the Tokyo benchmark
- The move subsequently faded, leaving the pair back near its opening level
- EUR/USD held above 1.1200 following Moody's decision to maintain France's sovereign rating at Aa3 late on Friday
- The pair recovered toward the upper end of its APAC range, trading around 1.1220 into London

G10 Spot Desk Views:

- USD: Retains a mild bearish USD bias, but prefers to express this selectively rather than through broad-based dollar shorts.
- JPY: Remains positive on JPY, with cross-JPY shorts viewed as one of the cleaner ways to position for ongoing uncertainty and potential BoJ hawkishness.
- CHF: Continues to favour CHF as a defensive currency in the current environment, particularly during periods of market stress.
- AUD: Still supported by favourable terms of trade and energy dynamics, though less preferred than JPY and CHF given Australia's exposure to the AI/data-centre investment theme.
- NOK: Constructive on NOK, which continues to outperform traditional risk-sensitive currencies, supported by higher energy prices.
- SEK: Views SEK positively, highlighting its resilience and relative outperformance despite broader market uncertainty.
- CAD: Leans constructive on CAD, noting that markets continue to take Bank of Canada tightening signals seriously despite softer inflation data.
- EM FX: Less enthusiastic on using high-beta EM currencies such as MXN and ZAR to express USD weakness, preferring developed-market defensive currencies instead.

FX Vol Colour:

- Markets started the week quietly, with limited reaction to French protests and renewed Trump threats against Iran, while attention shifts to Wednesday's Fed decision
- USD/JPY remains near 157, with subdued spot moves pressuring gamma and 1m JPY vol falling from 8.10 to 7.85
- FOMC event risk is priced at 4.75 additive vols, taking forward overnight vol to 12.75v and the straddle to 54bp, potentially attractive if EUR/USD breaks away from 1.1200
- BoJ pricing looks relatively attractive at 6.5 additive vols and 13.75v forward overnight, given fresh economic forecasts and greater freedom for spot to move
- RBNZ is priced at 5.5 additive vols and 13.75v forward overnight, while the more live BoC meeting carries only 0.5 additive vols and a 35bp straddle breakeven
- Outside central banks, the UK budget carries a 4-vol event weight, while AUD CPI looks cheaply priced at just 0.75v given its potential importance for a November RBA hike

Isreal Election:

- Before the US vote comes Israel's election tomorrow, the sixth since 2019, with the final polls still pointing to deadlock:
- Neither Netanyahu's bloc nor the opposition appears close to the 61 seats needed for a majority, while Eisenkot's opposition has a modest lead in the latest polling averages
- Protracted coalition talks or fresh elections are reasonable risks
- Netanyahu has said he does not favour a pre-emptive strike on Iran before the election, but has left the post-election position open
- A result that weakens Netanyahu could lower the immediate odds of Israeli-led escalation, whereas another stalemate — or a Netanyahu-led coalition — could leave the incentive for renewed military action intact

AI Outlook:

- The coming week should provide an unusually important test of the recent concerns around the AI sector
- Alphabet and Microsoft report on Wednesday, with Amazon following on Thursday, so the market's reaction to their results and, especially, the latest capex plans could rival Wednesday's FOMC for top billing
- Indeed, given the recent AI-related market wobbles, the earnings may ultimately matter more for markets than the Fed, the ECB meeting on Thursday or the BoJ on Friday

Fed Preview:

- Looking at Wednesday's FOMC, DB economists are expecting the Fed to leave rates unchanged
- Futures are pricing in less than a 10% chance of a hike after briefly spiking above 50% less than a couple of weeks ago after the CPI print
- The interest will therefore be in Chair Warsh's press conference and how the Fed balances still-elevated inflation and solid growth against the recent tightening in financial conditions
- Our economists expect the statement itself to contain only limited changes, although dissents to a hold are possible
- The broader message is still likely to be hawkish: our economists think recent inflation data support the case for further tightening over time, even if the Fed chooses to pause this week
- They also expect Warsh to make clear that tighter financial conditions are not a substitute for higher policy rates

More CB Action:

- Other than the Fed, DB economists expect the ECB to keep policy rates unchanged on Thursday too, following tomorrow's bank lending survey
- Moreover, our Chief Japan economist expects the BoJ to hold on Friday
- The market is pricing less than a 3% probability of either hiking
- However, it's an 85% and 88% probability of the Bank of Canada and Reserve Bank of New Zealand of hiking on Wednesday

Overnight Data Releases

- Japan – Leading Index CI (Aug F): 118 vs. 118 prior / Coincident Index (Aug F): 118.8 vs. 118.7 prior
- Saudi Arabia – Foreign Trade Oil Exports (Aug): 61,082.0m vs. 59,888.1m prior / Oil Exports YoY: -12.5% vs. -12.8% prior / Trade Balance: 15,598.1m vs. 13,243.0m revised
- Sweden – PPI MoM (Sep): 3.4% vs. 0.9% prior / PPI YoY: 11.2% vs. 6.8% prior

Day Ahead

Today's highlights include the US September Chicago Fed national activity index, October Dallas Fed manufacturing activity and the German October Ifo survey. In the US, we'll have a 2yr Notes ($69bn) auction

Countries	GMT	Data/ events	Survey	Previous	Revised	Bloomberg Ticker
CZ	08:00	Business Confidence (Oct)		98.4		CZCCBUSI Index
CZ	08:00	Consumer & Business Confidence (Oct)		99.5		CZCCCOMP Index
CZ	08:00	Consumer Confidence Index (Oct)		105.1		CZCCCONS Index
SP	08:00	Home les (Aug)		(-5.1%)		(SPHTHYOY Index)
SP	08:00	House Mortgage Approvals (Aug)		(-3.5%)		(SPMTHIYY Index)
SP	08:00	PPI (Sep)		2.9%(13.2%)		SPROCHNG Index(SPROYOY Index)
SP	08:00	Total Mortgage Lending (Aug)		(19.0%)		(SPMTCYOY Index)
CHE	09:00	Domestic Sight Deposits CHF		435.4b		SZMSSDDB Index
DEU	09:00	IFO Business Climate (Oct)		89.9		GRIFPBUS Index
DEU	09:00	IFO Current Assessment (Oct)		89.5		GRIFPCA Index
DEU	09:00	IFO Expectations (Oct)		90.4		GRIFPEX Index
CHE	09:00	Total Sight Deposits CHF		457.0b		SZMSTSDF Index

GBR	11:00	CBI Retailing Reported Sales (Oct)	-55	DTSRR1RB Index
GBR	11:00	CBI Total Dist Reported Sales (Oct)	-36	DTSDD1RB Index
BZ	11:00	FGV Consumer Confidence (Oct)	84.2	BZFGCCSA Index
BZ	11:25	Central Bank Weekly Economist Survey		
BZ	11:30	Current Account Balance (Sep)	-5055m	BZCACURR Index
BZ	11:30	Foreign Direct Investment (Sep)	7396m	BZFDTMON Index
CAN	12:00	Bloomberg Nanos Confidence	51.7	BNCCINDX Index
USA	12:30	Chicago Fed Nat Activity Index (Sep)	-0.04	CFNAI Index
BZ	18:00	Trade Balance Weekly	2661m	BZTWBALW Index

Kind Regards,

Charles Donaldson

Charles Donaldson
FX Sales | Institutional Client Group

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