

The auctions did what the data could not

The US 10-year touched its highest yield since 2002 on Wednesday and then fell, not on the data but on two well-bid Treasury auctions. Credit stayed in a stand-off between holders who will not sell and buyers who want more spread.

AUST 10-YEAR	US 10-YEAR	FRANCE 10-YEAR	ITALY 10-YEAR	JAPAN 10-YEAR	ITRAXX AUST	90-DAY BBSW
5.34%	5.24%	4.86%	4.59%	3.00%	74	4.77%
-1 on week	-4 on week	-0.5 on week	-3 on week	-9 on week	-2 on week	+2 on week

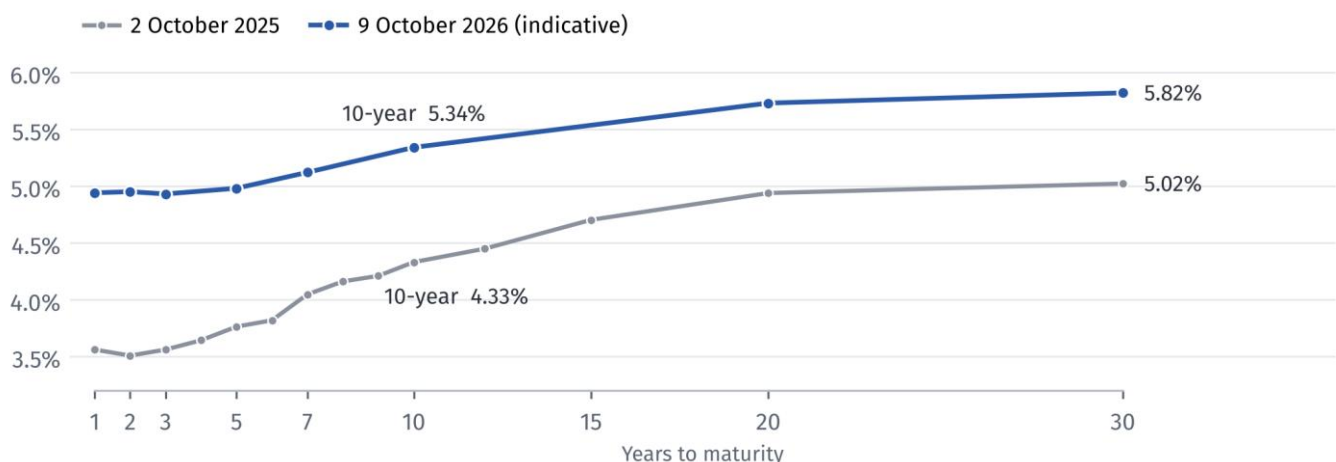
Levels at 9 October 2026 with the change on the week in basis points. US 10-year from Federal Reserve H.15 and the market close. Source Refinitiv Datastream, Federal Reserve, Arculus

THE WEEK IN FOUR POINTS

- The US 10-year touched 5.36% on Wednesday, the highest since 2002. Strong demand at the 10-year and 30-year auctions turned it, and it closed the week near 5.24%, about 5 basis points lower.
- ANZ Research now describes the bond selloff as structural, driven by quantitative tightening, competition for capital and no political appetite to cut borrowing, and not by central bank credibility. That is the flows argument we made last week.
- Australian dollar credit is still leaking wider on light volume because dealers are carrying heavy inventory after record supply, not because credit quality has changed. iTraxx Australia touched 76 on 2 October and eased back to 74. Primary reopened with SMBC and an A\$500 million MUFG AT1.
- The Australian 10-year closed near 5.34%, between 10 and 14 over the US. 90-day BBSW is 4.77% and 180-day BBSW set a new high since 2014 at 5.16%. The RBA minutes on Tuesday and the labour force survey on Thursday decide the November debate.

The Australian curve is 80 to 145 basis points higher than a year ago and flatter

Commonwealth government benchmark yields by maturity



Source Refinitiv Datastream for 2 October 2025. The 2026 curve is indicative from public closing levels on 9 October with the 10-year from Refinitiv, Arculus

RATES

Interest rates

United States

The 10-year Treasury touched 5.36% on Wednesday, its highest since 2002, before strong demand at the 10-year and 30-year auctions pulled it back. It closed the week near 5.24%, about 5 basis points lower, with the 2-year near 4.80% and the 30-year near 5.60%.

The data did not do the work. ISM services eased to 54.9 with prices paid up to 74.0, jobless claims fell to 197,000, the lowest since July, and preliminary University of Michigan sentiment fell to 46.3, a five-month low. The FOMC minutes showed every participant backed the September hike and most saw another as likely by year end. Governor Waller said more hikes will likely be needed but the timing is flexible, and October pricing sits near 20%.

The 10 year yield is looking range bound and so we will watch for a move below 5.18% or a close above 5.35% before reacting.

Australia

Commonwealth 10-year bonds closed near 5.34% and the 3-year near 4.93%. Mizuho has the 10-year spread over the US briefly trading inside 10 basis points on Thursday before finishing the week at 13.5.

The Australian curve is not following the US. Mizuho notes the 3-year to 10-year spread has struggled to break 50 basis points while the US curve steepened, taking the Australian curve from about 12 steeper than the US in late September to about 3 flatter. Friday brought a twist flattening as curve steepeners were liquidated.

Forward interest indicators

Bank bills at their highest since 2014

90-day and 180-day BBSW, daily since 2014



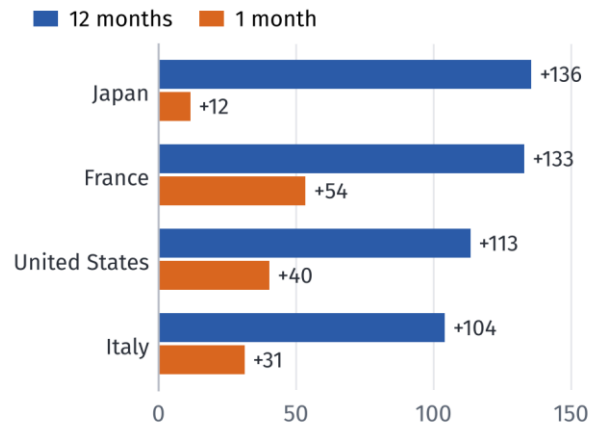
Source Arculus data file to 9 October 2026

90-day BBSW closed the week at 4.77%, matching its high since 2014, and 180-day BBSW set a new high at 5.16%, 39 basis points above the 90-day against 19 a year ago. Market pricing gives a November hike about a 30% chance and December about 46%.

SOFR held between 3.87% and 3.90% and was 3.87% on 8 October, 90 basis points below 90-day BBSW. Mizuho quotes one-year Australian bank paper near SOFR plus 49, against offshore prints this week at SOFR plus 35 to 36.

Japan and France lead the selloff

Change in 10-year yield to 9 October, basis points



Source Refinitiv Datastream, Federal Reserve H.15, Arculus

SOFR has stepped up with the Fed

Secured Overnight Financing Rate, daily



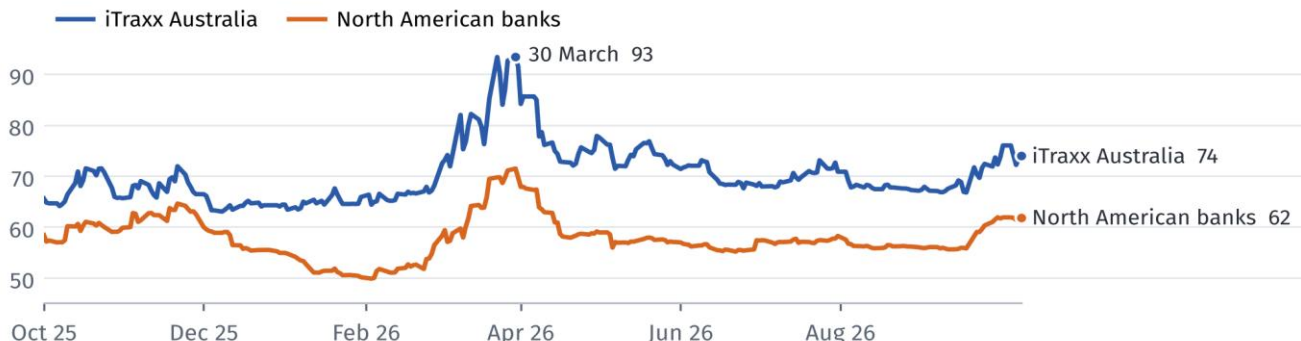
Source Federal Reserve Bank of New York to 8 October 2026

CREDIT

Credit markets

Credit default swaps have barely moved while yields surged

Five-year CDS indices, basis points, daily, 1 October 2025 to 9 October 2026



Source Refinitiv Datastream, Arculus

Global credit

iTraxx Australia touched 76 on 2 October, its widest since May, then eased back to 74 by Friday, while North American bank CDS held at 62. Over the month iTraxx is 7 wider and bank CDS 6 wider, against rises of 31 to 54 basis points in US and European 10-year yields.

French risk eased early in the week. Real money returned to Crédit Agricole and BPCE paper and the hardest-hit lines recovered 2 to 3 basis points. The OAT to Bund spread then widened back towards 140 on Thursday night after reports that the government may bypass parliament to push through its cuts.

Australian dollar credit

Spreads kept leaking wider on light volume. Holders are comfortable, buyers want more spread, and record supply has left dealers with heavy inventory that creates a persistent offer without broad investor selling. Major bank five-year FRNs closed at 69.5, half a basis point wider on the week.

Primary reopened. SMBC Sydney printed A\$900 million of five-year FRNs at 76 over, 4 wide of its May deal. MUFG priced A\$500 million of perpetual non-call 5.25 AT1 at 7.375%, inside 7.75% guidance, though books fell once the price was set and the break was soft. State Grid has mandated an inaugural deal and the majors are yet to issue.

Bank capital and listed hybrids

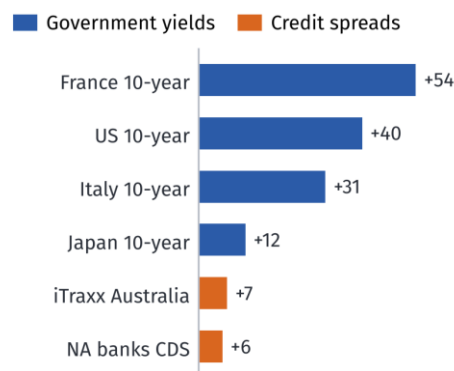
Major bank Tier 2 FRNs were 1 basis point wider on the week and the sector again went untested by meaningful selling. AT1 has been resilient on wealth and private bank demand, and the MUFG deal is the test of whether global fund managers will join them.

Our read is unchanged. This is a liquidity and inventory story and not a credit quality story. The repricing is concentrated where dealers are long and in lines tied to French sovereign risk, while index CDS and major bank senior remain steady. Where that has cheapened paper without any change in credit quality, we see opportunity.

The average major bank hybrid margin widened over the week by 0.12% to 1.74% driven by weak bank share prices. There is some rationale for weaker bank stocks (deteriorating mortgage market, lower loan growth, property developer woes) however translation to hybrid credit risk is very remote at this stage. Buy any hybrid price weakness. In context, the current margin average is just above the YTD average).

Yields rose, credit margins held

Change over one month to 9 October, basis points



Source Refinitiv Datastream, Federal Reserve H.15, Arculus

Major bank line	Margin (bp)	Week (bp)	Running yield
Senior FRN 1 year	41.5	0	5.19%
Senior FRN 5 year	69.5	+0.5	5.47%
Tier 2 FRN 2033-28	101	+1	5.78%
Tier 2 FRN 2036-31	133	+1	6.10%
Tier 2 FRN 2041-36	162	0	6.39%

Source ANZ Credit Trading indicative mids over BBSW at 8 October 2026, Arculus.
Running yield is 90-day BBSW of 4.77% plus margin

CALENDAR

Week ahead

The week turns to inflation and jobs. US CPI on Wednesday is expected to show headline inflation lifting to 3.6% on energy with core at 2.5%, and Australian employment on Thursday tests the RBA's November case. US bank earnings start on Tuesday, opening the Q3 season that ANZ's credit desk sees as the next gauge for spreads. AOFM supply totals A\$2 billion across Tuesday, Wednesday and Friday.

Day	Australia	United States	Europe and Asia
Monday 12 October	No major domestic releases.	Columbus Day holiday, with the bond market closed and equities open.	Japan is closed for Sports Day and Canada for Thanksgiving.
Tuesday 13 October	Minutes of the RBA's September meeting and the NAB business survey for September. The AOFM tenders A\$300 million of the March 2047 bond.	JPMorgan, Goldman Sachs, Citigroup and Wells Fargo open the Q3 earnings season. OPEC monthly report.	German final CPI for September and Japanese producer prices.
Wednesday 14 October	The AOFM tenders A\$700 million of the March 2036 bond.	CPI for September. Consensus is 0.6% for the month and 3.6% for the year on headline, and 0.2% and 2.5% on core. Beige Book. Morgan Stanley and Bank of America report.	China CPI for September, expected around 1.0% for the year with producer prices at 3.8%.
Thursday 15 October	Labour force survey for September. ANZ expects 15,000 jobs and unemployment steady at 4.6%, against market expectations of 20,000.	Retail sales for September, expected to rise 0.3% after 1.1%. Producer prices and the Philadelphia Fed survey.	UK GDP for August, expected to contract 0.3% to 0.4%. Eurozone industrial production.
Friday 16 October	The AOFM tenders A\$1 billion of the April 2029 bond.	Industrial production and import prices for September.	Eurozone and Italian final CPI for September.

RBA Assistant Governor Kent is interviewed on Sunday 18 October. Further out, the Q3 CPI late in October decides the RBA's November meeting, the Fed meets on 27 and 28 October and the US midterms are on 3 November.

THE VIEW

Macro

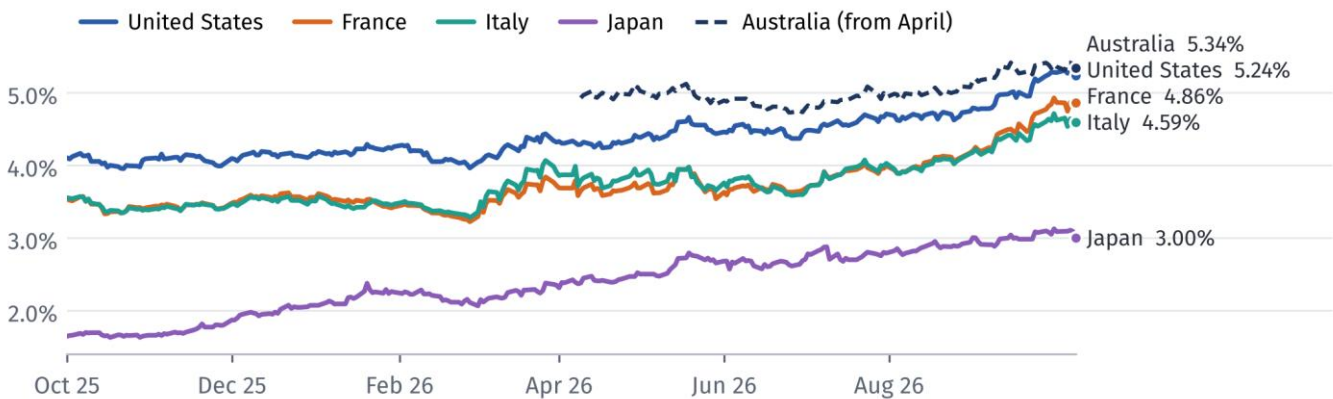
The auctions did what the data could not

In the prior week the long end sold off on a weak payrolls number. Last week it rallied, and the trigger was not the data. Sentiment fell to a five-month low, services activity eased and jobless claims fell to 197,000. None of it moved yields much. What did was demand for duration at the 10-year and 30-year auctions after the 10-year touched 5.36% on Wednesday. The buying was far more broad spread than US Treasuries. Buying first emerged in the stressed Euro Area sovereign markets (France, Italy Spain) without a new data. This fits our view that benchmark yields are being set by flows and supply and not by the economic outlook.

The structural case is becoming consensus

Every major 10-year yield is more than 100 basis points higher than a year ago

10-year government benchmark yields, daily, 1 October 2025 to 9 October 2026



Source Refinitiv Datastream, with the US 10-year in October from Federal Reserve H.15, Arculus

Near-term tightening expectations have retreated, yet bond yields have kept climbing, which it reads as structural and not a question of central bank credibility. Quantitative tightening, competition for capital and a lack of political appetite to cut government borrowing are the key themes. Add the yen carry unwind and that is our list. USD/JPY is still near 158 and Japan's 10-year is at 3.00%, with BoJ board member Sato now favouring staged hikes.

France is a political trade now

France now pays 27 basis points more than Italy to borrow for ten years

French 10-year yield minus Italian 10-year yield, basis points



Source Refinitiv Datastream, Arculus

France now yields about 27 basis points more than Italy, the widest gap of the year, with France near 4.86% and Italy near 4.59%. None of the French opposition parties, the minority government depends on, has an incentive to back Prime Minister Lecornu's €54 billion of cuts ahead of the April and May 2027 presidential election. A roll-over of the 2026 budget would widen the deficit to around 6.0% of GDP. The ECB could halt QT or activate its Transmission Protection Instrument if spreads become contagious, but the hurdle is high.

The election has become a debt election

France's borrowing costs are now a campaign issue for the spring 2027 presidential election. Bank of France Governor Emmanuel Moulin warned this week that France risks being "strangled by interest rates" without a credible budget. Far-left candidate Jean-Luc Mélenchon, who has floated cancelling some French debt and is within reach of the run-off in some

polls, accused him of treason. Marine Le Pen, the frontrunner, has presented her own budget built on spending cuts and wants the ECB to intervene once the public finances are on the mend.

Do not expect a backstop. Moulin said the conditions are not in place for ECB intervention and that the ECB is there to fight inflation, not to deal with countries' budget problems. That leaves the bond market to do the disciplining. The Financial Times reports the OAT to Bund spread briefly traded above 150 basis points last week, the highest since the euro crisis, before settling near 140. The 10-year OAT rose 12 basis points to 4.87% on Wednesday on reports the government may bypass parliament to force its cuts through.

From the sovereign to the banks

The French Banks credit margins have certainly been impacted by the surge in the sovereign yields, however, there has also been a surge in investors shifting their term deposits into Swiss and German banks. Any fall in the volume of term deposits will need to be replaced by an increase in the senior bond issuance. Quite why investors are moving out of French bank deposits is a subject for separate consideration.

Goldman Sachs notes that European financials have underperformed across the capital structure on weaker fund inflows as total returns turned negative, heavy issuance since late August and the sovereign selloff. In its basket of longer-dated European senior financial bonds, removing the French names tightens the average spread by 5 basis points. That is the French premium in a single number.

The same thing is happening in Australian dollars. French Kangaroo paper was the weakest part of the offshore financials complex. Local real money selling spread from senior non-preferred into senior preferred on Monday, with Crédit Agricole 2031 senior paper clearing about 5 basis points wider. By midweek real money had returned to Crédit Agricole senior and subordinated paper and to BPCE subordinated debt, and the hardest-hit lines recovered 2 to 3 basis points.

Our read is that this is country risk priced through the banks and not a change in the banks themselves. The French majors are not the French budget. With no ECB backstop on offer and the election six months away, volatility will not run in a straight line. But the repricing has built a cushion, and it is largest where the capital structure is safest. We would rather own senior paper from the stronger French banks at these spreads than chase the sovereign.

Energy, supply returning and buffer thin

Oil eased through the week as traffic through the Strait of Hormuz picked up. Kuwait says it is producing about 2 million barrels a day against 2.6 million before the conflict, Saudi Aramco cut its November Arab Light price US\$5 below the regional benchmark, and President Trump said he would not attack Iran before the 3 November midterms. The buffer has not been rebuilt. Aramco's chief executive described stockpiles as scarily thin, and European gas storage is 71% full against a seasonal norm of 87%.

Australia, the labour market decides November?

ANZ-Roy Morgan consumer confidence fell to its tenth-lowest reading since the series began in 1973, while ANZ-Indeed job ads rose again in September. Policy is weighing on demand without yet opening enough spare capacity to return inflation to target. Media and market commentary will portend that Thursday's labour force survey is the swing factor. We treat the employment data as a lagging indicator because the decision to employ someone or fire someone is made in the private sector 6-9 months ago and in the public sector the decision to add workers is made according to the political cycle. The major banks have publicly stated that they believe that the RBA will hike rates again in November, however, we now believe that the RBA will remain on hold until at least 2028 and then cut rates slightly in the lead up to another Federal election. Like the remarkable decision to cut rates in February 2025 the rate cut will be politically driven.

WHAT WE ARE WATCHING

- The US 10-year closes above 5.36%. That would say supply and flows are still in charge. A close below 5.18% would say the data has its voice back.
- The yen strengthens sharply against the US dollar. That would say the carry unwind is accelerating and would put more pressure on long Treasuries.
- Australian unemployment prints 4.8% or higher on Thursday. That would make a November pause the likelier outcome. At 4.6% or below the hike case stands.
- iTraxx Australia moves through 80 basis points. While it holds in the low 70s, credit is telling us default risk is not the issue.
- Q3 trimmed mean inflation prints below 0.9%. That would take much of the pressure off November. At 1.0% or above we would expect another hike.

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