

A bond rally without a macro story

The US 10-year had its biggest one-day fall in a year as the AI selloff deepened, yet credit spreads widened and French yields pushed through 5%. The RBA sounded more hawkish, not less, ahead of Wednesday's Q3 CPI.

AUST 10-YEAR	US 10-YEAR	FRANCE 10-YEAR	ITALY 10-YEAR	JAPAN 10-YEAR	ITRAXX AUST	90-DAY BBSW
5.18%	5.00%	5.02%	4.58%	2.80%	80	4.82%
-6 on week	-8 on week	+24 on week	+11 on week	-13 on week	+4 on week	+6 on week

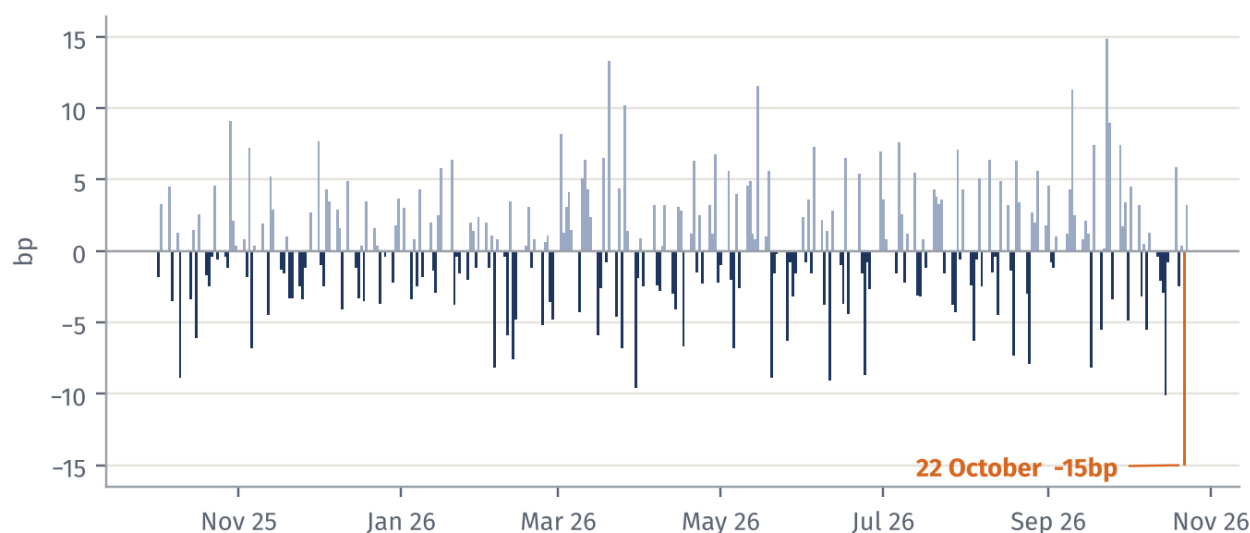
Levels at 23 October 2026 with the change on the week in basis points. Source Refinitiv Datastream, Arculus

THE WEEK IN FOUR POINTS

- The US 10-year fell 15 basis points on Thursday 22 October, its largest one-day fall in a year, to close the week at 5.00%. The trigger was AI selling, with the Nasdaq 100 down 2.9% that day, not a change in the economics.
- The RBA turned more hawkish. Deputy Governor Hauser said the inflation outlook looks materially worse than in August, and Barrenjoey joined ANZ in expecting a November hike. Q3 CPI on Wednesday now decides it.
- France is the pressure point in Europe. Its 10-year rose 24 basis points to 5.02%, 44 over Italy and above the US.
- Credit did not join the rally. iTraxx Australia broke through 80 on Friday and NextDC entered a trading halt. Major bank hybrids were the exception, tightening 10 basis points as CBAPJ proceeds were reinvested.

The US 10-year had its biggest one-day fall in a year

Daily change in the 10-year Treasury yield, basis points, 1 October 2025 to 23 October 2026



Source Refinitiv Datastream, Arculus

RATES

Interest rates

United States

The 10-year Treasury fell 8 basis points on the week to 5.00%, after a 15 basis point fall on Thursday took it below the 5.08% close of a week earlier. The shorter benchmark eased 3 to 4.68% and the 3-month bill 4 to 4.04%.

The rally came with no help from the Fed. Goldman Sachs reads the Fed speakers as favouring a hike at every other meeting, which points to December, while ANZ still expects a hike this week against about 15% priced. A central bank leaning against the bond market is one more reason to doubt the rally's staying power.

Australia

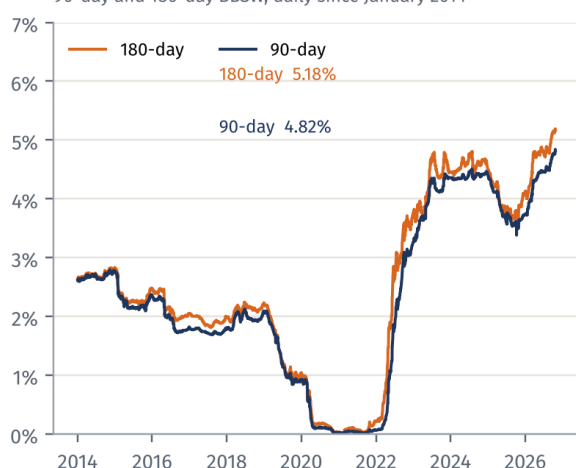
The Australian 10-year fell 6 basis points to 5.18%, about 18 over the US, as heavy semi-government supply and a hawkish RBA kept Australia lagging the rally. 90-day BBSW went the other way, rising 6 to 4.82%. November pricing rose another 2.5 basis points on Friday, with about 34 basis points priced to the peak.

Deputy Governor Hauser described "a world of hard choices" and said the inflation outlook "looks materially worse than we projected in the August report". Barrenjoey changed its call to a November hike, citing an expected upward revision to NAIRU from 4.6% to 4.9%, and ANZ expects the same. Last week Arculus said it does not expect a November hike and put NAIRU at 4.75%.

Forward interest indicators

Bank bills at their highest since 2014

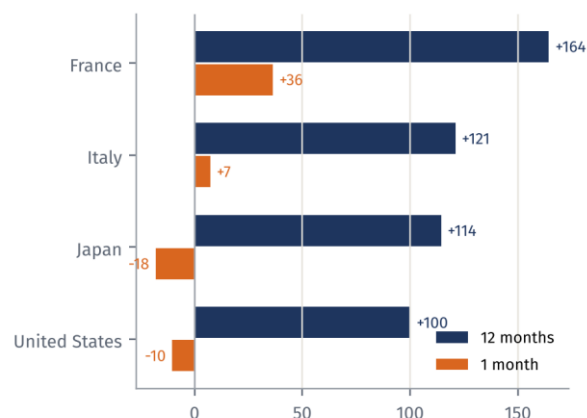
90-day and 180-day BBSW, daily since January 2014



Source Arculus data file to 23 October 2026

France leads the selloff on both horizons

Change in 10-year yield to 23 October, basis points



Source Refinitiv Datastream, Arculus

90-day BBSW closed the week at 4.82% and 180-day BBSW at 5.18%, both up 6 basis points and well above the 4.60% cash rate. The 90-day rate touched 4.84% on Thursday, the highest in our data back to 2014.

The bill market moved the opposite way to bonds. While the 10-year rallied on AI selling, bills priced a more hawkish RBA, widening the gap between what the bond market fears and what the RBA is signalling. Floating rate coupons reset off these levels, so the rise flows straight into running yields across bank paper.

CREDIT

Credit markets

iTraxx Australia broke through 80, its widest since early April

Five-year CDS indices, basis points, daily, 1 October 2025 to 23 October 2026



Source Refinitiv Datastream, Arculus

Global credit

The AI financing debate moved from bonds into equities. Meta lifted the floor of its 2026 capex guidance to US\$135 to 145 billion as its free cash flow turned negative. Hyperscaler capex is estimated near US\$1 trillion this year and above US\$1.6 trillion a year from 2029, so the supply of AI related debt is not going away. North American bank CDS rose another basis point to 64.

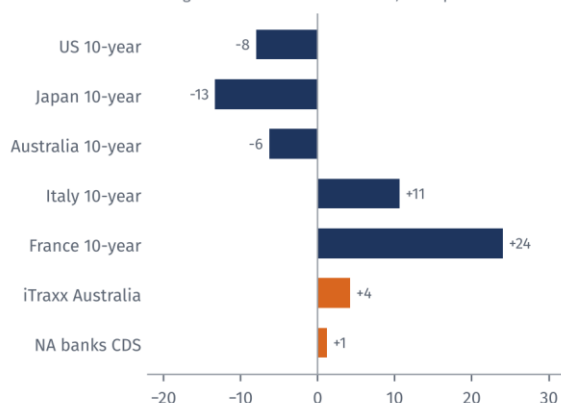
Australian dollar credit

Australian dollar credit became a stock picker's market. NextDC entered a trading halt on 19 October after delays to power delivery at its M3 facility, with its bonds trading about 75 basis points wider than a month earlier. CDC subordinated FRNs widened about 40 basis points on 21 October before recovering 10 as real money stepped in, drawn by stronger fundamentals. Offshore real money joined fast money in selling corporate hybrids.

Bank of Queensland, downgraded to BBB+ by S&P, still priced A\$800 million of three-year FRNs at BBSW+92 with little break selling. French bank TLAC widened 3 to 5 basis points on the French budget debate, and Commerzbank, Nationwide and Santander lines have cheapened 10 to 15 basis points to below par.

Yields mostly fell, credit spreads widened

Change over the week to 23 October, basis points



Source Refinitiv Datastream, Arculus

Major bank line	Margin (bp)	Since 15 Oct	Running yield
Senior FRN 1 year	43.0	+0.5	5.25%
Senior FRN 5 year	70.0	+0.5	5.52%
Tier 2 FRN 2031-26	71.0	+1.0	5.53%
Tier 2 FRN 2032-27	80.0	0.0	5.62%
Tier 2 FRN 2036-31	132.0	+1.0	6.14%
Tier 2 FRN 2041-36	163.0	+1.5	6.45%

Source ANZ Credit Trading indicative mids over BBSW at 22 October 2026, Arculus. Running yield is 90-day BBSW of 4.82% plus margin

Bank capital and listed hybrids

Major bank senior FRNs ended the week only half a basis point wider, with the 5-year at about BBSW+70, as local and offshore real money kept parking cash at the front end. Tier 2 held in remarkably well against the weakness in corporate subordinated debt, helped by ETF demand for longer FRNs, and indications put the five-year call curve at BBSW+134 to 137. European perps underperformed, with Barclays and BNP sold as BNP began to reprice to the French weakness.

Strong buying following the CBAPJ redemption proceeds reaching investors' accounts on Tuesday pushed average major bank hybrid margins 10 bps tighter over the week. CBA hybrids were the standout beneficiaries, with CBAPL tightening by nearly 70 bps. Demand was also strong across other major bank hybrids, particularly ANZ and Westpac issues, while Suncorp hybrids and the longer-dated Macquarie issues also attracted buying interest.

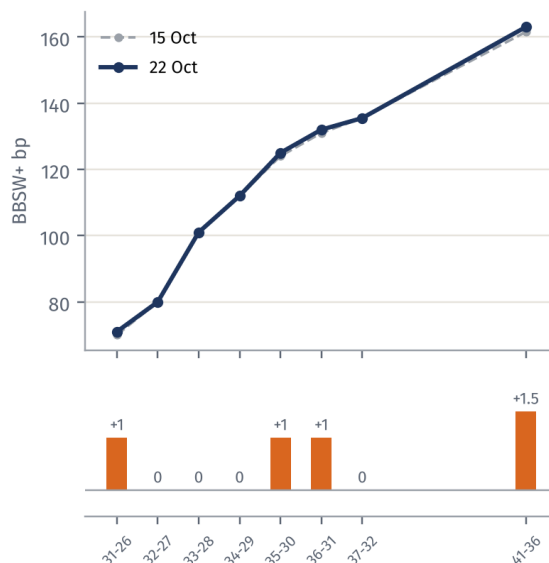
A similar pattern emerged following the NABPJ redemption in June, when margins continued to tighten for three to four weeks after the cash was returned to investors. On that occasion, the average major bank hybrid margin fell below 1.40%, about 10 bps tighter than current levels, suggesting there may now be further scope for margin contraction as redemption proceeds are progressively reinvested.

Reporting season

The major banks begin reporting on 2 November and Barrenjoey calls it the calm before the storm. Business credit is growing 10.9% a year, or 12.9% including debt securities, the fastest since the GFC, while mortgage applications are down about 24% from their January peak. Expect margin pressure, a modest rise in non-performing loans and further provision build. For bank capital investors that is a slow burn rather than a near term threat, and major bank senior CDS of 40 to 54 basis points shows little stress priced.

Tier 2 barely moved as high beta sold off

Major bank Tier 2 FRN mids, BBSW+ bp, and weekly change



Source ANZ Credit Trading closing mids 15 and 22 October 2026, Arculus

CALENDAR

Week ahead

Q3 CPI on Wednesday and the FOMC on Thursday morning dominate. The RBA's senior team faces the Senate on Wednesday morning, and the ECB and BoJ follow. US megacap earnings run through the week.

Day	Australia	United States	Europe and Asia
Monday 26 October	RBA Assistant Governor Jones at the AFR Super and Wealth Summit, after Assistant Governor Hunter's 60 Minutes interview on Sunday.	A busy week of megacap earnings begins.	Quiet start.
Tuesday 27 October	ANZ-Roy Morgan consumer confidence.	Durable goods orders for September.	Israel election.
Wednesday 28 October	RBA Governor Bullock and senior officials before the Senate Economics Committee at 11.15am. September and Q3 CPI at 11.30am, with ANZ expecting trimmed mean of 1.0% for the quarter.	FOMC decision, announced at 5.00am Thursday Sydney time. ANZ expects 25 basis points against about 15% priced.	RBNZ decision, with a hike largely priced. UK budget.
Thursday 29 October	No major domestic releases.	PCE inflation for September and advance Q3 GDP.	New Zealand ANZ business confidence. ECB decision, expected to hold, announced at 12.15am Friday Sydney time.
Friday 30 October	Q3 PPI and September private sector credit, with ANZ expecting 0.5% for the month.	Earnings continue.	BoJ decision, expected to hold. Tokyo CPI, Japan jobs, retail sales and industrial production. Euro area Q3 GDP and unemployment.

What the forecasters expect from Wednesday's CPI

Measure	ANZ	Barrenjoey
September headline, year	4.2%	4.3%
September trimmed mean, year	3.6%	Not given
Q3 headline, quarter	1.3%	Not given
Q3 trimmed mean, quarter	1.0%	0.9% to 1.1%
Q3 trimmed mean, year	3.6%	Not given

Source ANZ Australian Macro Weekly 23 October 2026, Barrenjoey Economics. ANZ sees a trimmed mean print near 0.8% for the quarter as the level needed to stop a November hike

Further out, major bank results begin on 2 November, the RBA meets in November, the US midterms are on 3 November and the Victorian State election is on 28 November.

THE VIEW

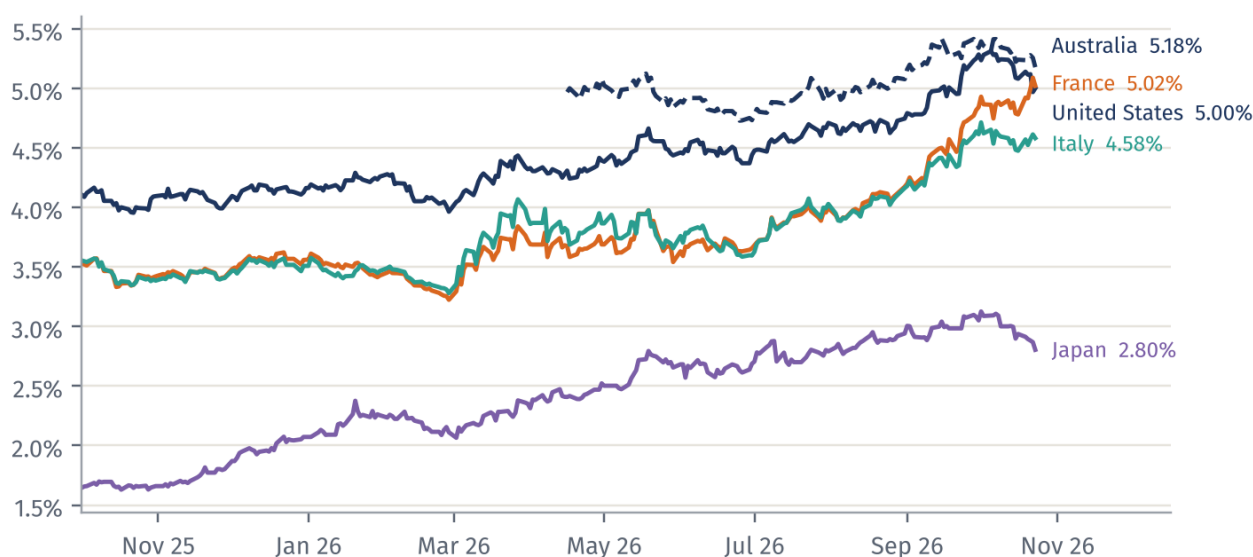
Macro

A bond rally without a macro story

It was a remarkable week for the bond market that could be summarised as 'risk off'. Such a generic description was adequate until Thursday night when the yield on the US 10 year fell 17bps. It has been some time since we have seen a fall of this magnitude, although there have been numerous occasions in the past 9 months where yields have increased dramatically. Given that this bond rally has not been driven by a change in the macroeconomic outlook, we need to be circumspect about its longevity.

Yields eased again but France pushed through 5%

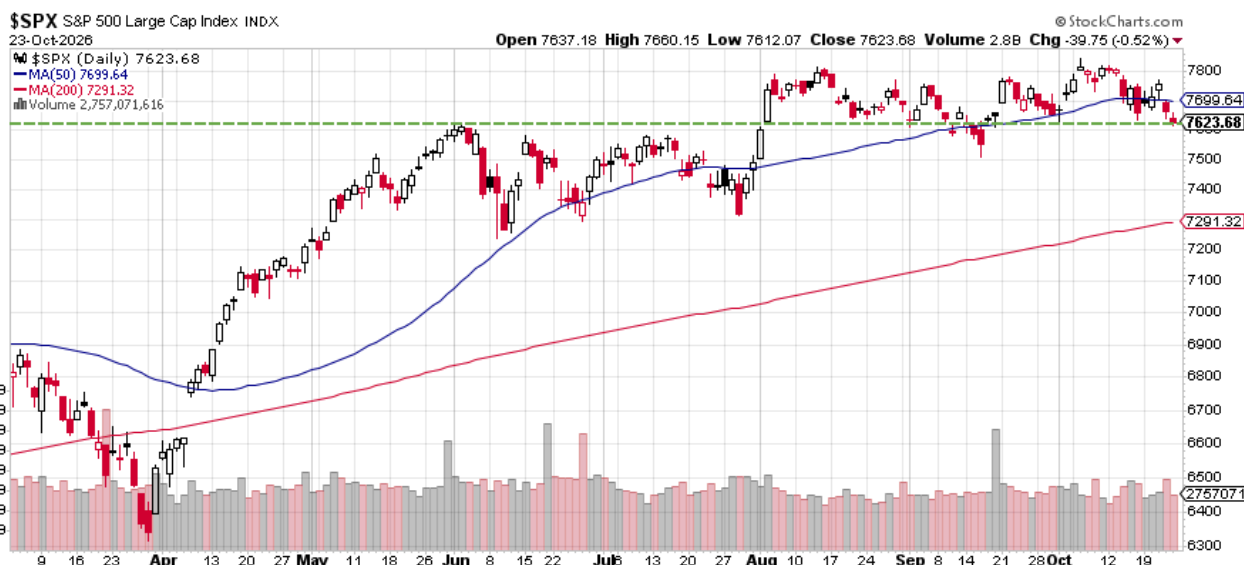
10-year government benchmark yields, daily, 1 October 2025 to 23 October 2026. Australia dashed, from April



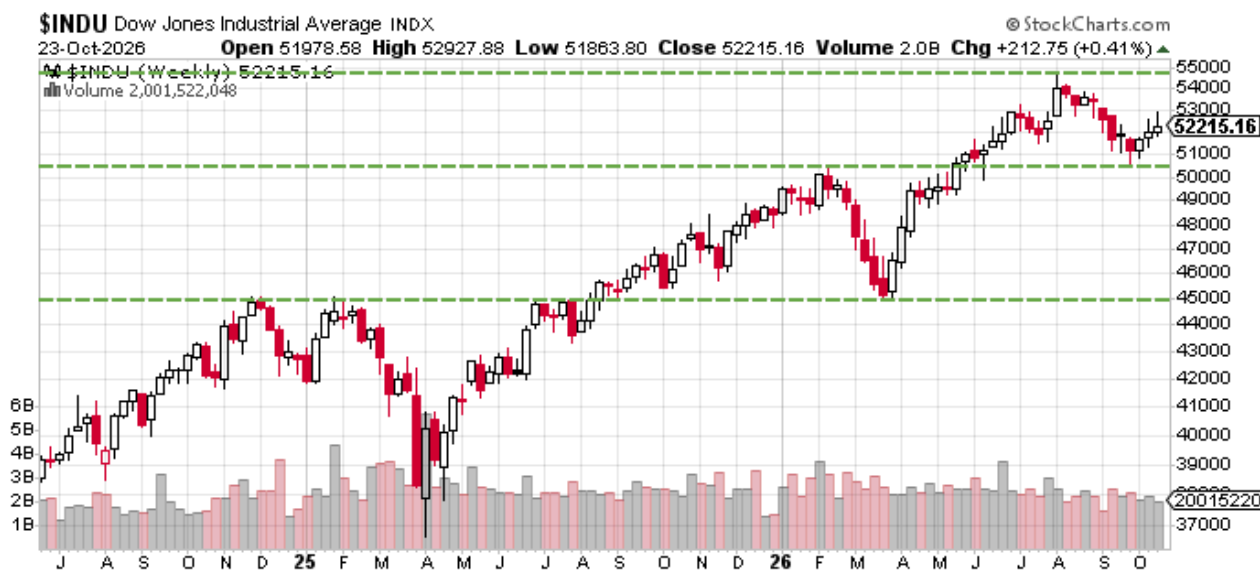
Source Refinitiv Datastream, Arculus

Notwithstanding that we are more likely to be very late in the economic cycle of the developed economic world, it is still too early to forecast the timing of its demise. It will, this time, end badly because unlike previous economic contractions developed economies will enter this next one with high inflation and big budget deficits that will restrict their ability to apply a New Keynesian style fiscal response. Equally the central banks will not be able to respond without feeding higher inflation. The IMF has previously warned governments with high levels of debt that if an economic contraction occurs their economies will contract harder and for a more prolonged period because they will need time to pay down debt before a recovery can occur.

The equity tape supports that caution. The S&P 500 fell 1.2% on Thursday and closed the week at 7,624, sitting on the 7,600 support line we flagged last week and below its 50-day average of 7,700. A break below 7,600 may see selling momentum increase. The Dow Jones closed at 52,215, up 0.4% for the week and comfortably above 50,500. The Nasdaq Composite is down 3.4% so far in October at 25,955 but remains well above its first support near 24,000. Beneath the surface, the S&P 500 excluding AI has outperformed the index by 6 percentage points this month. If AI equities stabilise, the main prop under Treasuries goes with them.



S&P 500, daily. Source StockCharts.com, Arculus



Dow Jones Industrial Average, weekly. Source StockCharts.com, Arculus



Nasdaq Composite, monthly. Source StockCharts.com, Arculus

Europe and Japan

France now pays 44 basis points more than Italy for ten years

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



Source Refinitiv Datastream, Arculus

France's 10-year rose 24 basis points on the week to 5.02%, while Italy rose 11 and Spain only 3. France now pays 44 basis points more than Italy, up from about 30 a week ago, and the market is pricing French fiscal risk rather than euro area risk. ANZ expects the ECB to hold on Thursday, with headline inflation at 3.8% and signs of stress in sovereign debt markets.

The 10-year JGB fell 13 basis points to 2.80%, the largest weekly fall among the markets we track and about 30 below its early October high near 3.1%. The weekly chart shows the first real pause in a climb that began below 1% in 2024. ANZ expects the BoJ to hold on Friday. Lower JGB yields ease one channel of pressure on Australian duration, leaving US yields and domestic inflation as the drivers.



Japan 10-year government bond yield, weekly. Source StockCharts.com, Arculus

MONITOR

- The US 10-year at 5.00%. Last week we expected yields to rise again from November. A rally driven by AI selling rather than the economics is unlikely to last if equities steady.
- iTraxx Australia through 80. It got there on Friday at 80.2. The late March and early April highs of 85 to 93 are the next reference points.
- Q3 CPI on Wednesday. ANZ sees a trimmed mean print near 0.8% for the quarter as the level needed to rule out a November hike.
- The S&P 500 at 7,600. It closed Friday at 7,624, just above support and below its 50-day average. The Dow Jones at 52,215 remains well clear of 50,500.
- The average major bank hybrid margin against 1.40%, the level reached after the NABPJ redemption in June.
- The France to Italy spread at 44 basis points, and the ECB on Thursday.

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