SEPTEMBER 2026

Flash

September Fed Rate hike integrated into our outlook

Key Messages

1. We project two Fed hikes this year, one at the September meeting and another in December, taking the terminal policy rate to 4.25 %.
2. We keep a Neutral stance on US govies (ca. 5 years) with a 12-month target of 4.50 % for the 10-year yield, assuming the risk of a temporary overshoot toward 5 % in the coming months.
3. Accordingly, we change our 3-month EUR/USD target to 1.14 and keep our 12-month target at 1.20 (value of one euro).

The Federal Reserve

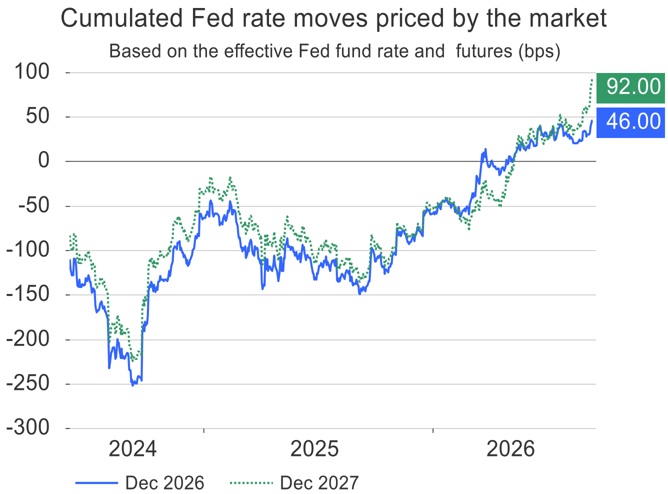
Chair Kevin Warsh's hawkish address at Jackson Hole caught markets off guard and prompted a rapid repricing of expectations for the September Fed meeting. In that speech he reaffirmed the Fed's 2 % PCE inflation target and signaled a policy response that aligns with the guidance traditionally issued by the FOMC. The central debate remains whether inflation will revert to the 2% target on its own, without additional monetary tightening and without a loosening of the labour market.

Recent price data, however, suggest that the disinflation process is lagging behind the Fed's hopes. Upside surprises in both CPI and PPI, together with rising futures prices for gasoline and other refined energy products, point to a persistently high and sticky inflationary environment that is not compatible with a near-term return to 2% PCE. Although Williams and Waller have recently argued for a policy pause on the basis of anticipated disinflationary evidence, such evidence has yet to appear.

Within this context, our policy framework assumes that the FOMC is prepared to raise rates enough to keep unemployment stable while tempering inflation, but it will not push rates high enough to deliberately raise unemployment, even if that would help lower inflation more aggressively.

Accordingly, we project two Fed hikes this year, one at the September meeting and another in December, bringing the terminal policy rate to 4.25%. We consider that level unlikely to be restrictive for US economic growth. We believe the reason for the FOMC to hike at September's meeting is to signal to investors and the broader public that policymakers remain capable and willing to act decisively for price stability, irrespective of political or extraneous considerations.

MARKET PRICING FOR THE FED



Source: LSEG Datastream, 14/09/2026

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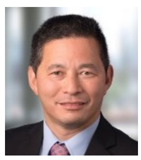

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Outlook for bond yields

U.S. 10-year Treasury yields have risen sharply since late June, driven mainly by higher real yields rather than changes in inflation expectations.

This uptick reflects stronger demand for capital fuelled by massive AI-related spending and persistent public deficits which pushes the “core” real yield (the real yield after removing the term premium) upward, while a widening term premium, spurred by recent Fed communication uncertainty, adds further pressure. The Treasury’s newly-announced programme to buy long-dated bonds is unlikely to have a lasting impact; market reactions will hinge more on fiscal-consolidation measures and clearer guidance from the Federal Reserve.

We keep a Neutral stance on US govies with a 12-month target of 4.50% for the 10-year yield, acknowledging the risk of a temporary overshoot toward 5% in the coming months. We prefer shorter duration (ca. 5 years) as the spread between the 30-year and 5-year Treasury rates is now 0.82%, below its 25-year average of 1.15%.

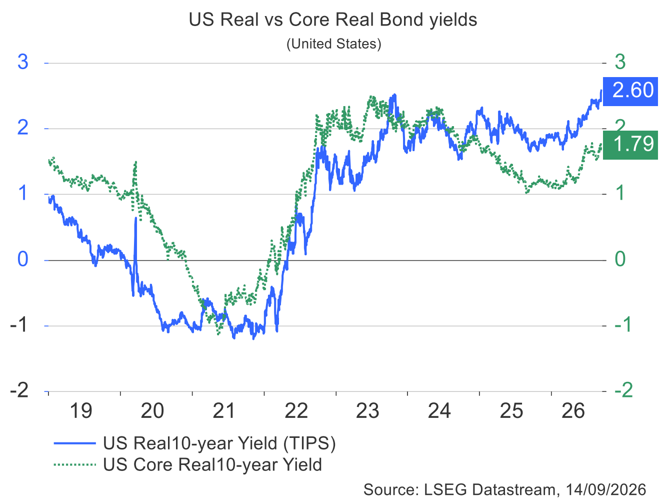
Outlook for the EURUSD

By the end of 2026, we anticipate a USD-positive cycle that will offset the underlying downside. This stems from our projection of 50 bp of Fed hikes and our view that the ECB will remain on hold. Accordingly, the near-term rate interest rate differential should favour the dollar, keeping the USD in a relatively wide range.

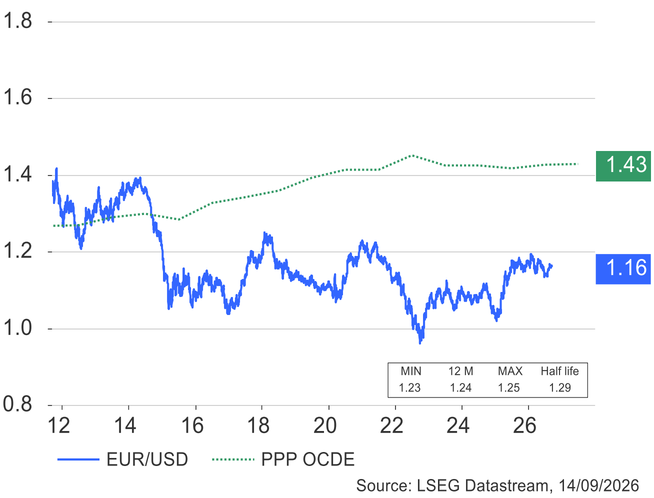
Nonetheless, we stay bearish on the dollar over the longer term, given structural headwinds such as waning confidence in the Fed’s ability to lower inflation and concerns about expanding fiscal deficits.

Accordingly, we change our 3-month EUR/USD target to 1.14 and keep our 12-month target at 1.20 (value of one euro).

REAL VERSUS CORE REAL US YIELDS



EUR/USD LONG-TERM FAIR VALUE



Region	Country	Pair	Spot 13/09/2026	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.16	Neutral	1.14	Negative	1.20
	United Kingdom	EUR / GBP	0.86	Neutral	0.87	Neutral	0.87
	Japan	EUR / JPY	178.25	Neutral	180	Negative	186
	Switzerland	EUR / CHF	0.95	Positive	0.92	Positive	0.92
	Australia	EUR / AUD	1.62	Positive	1.56	Negative	1.69
	New-Zealand	EUR / NZD	2.00	Positive	1.90	Neutral	2.0
	Canada	EUR / CAD	1.61	Positive	1.57	Neutral	1.62
	Sweden	EUR / SEK	11.25	Positive	11.00	Positive	10.80
	Norway	EUR / NOK	10.79	Neutral	10.80	Neutral	10.60
Asia	China	EUR / CNY	7.79	Neutral	7.64	Neutral	7.92
	India	EUR / INR	110.97	Positive	108.30	Negative	114.0
Latam	Brazil	EUR / BRL	5.92	Neutral	5.93	Neutral	6.0
	Mexico	EUR / MXN	19.71	Neutral	19.38	Negative	20.16

Region	Country	Pair	Spot 13/09/2026	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.16	Neutral	1.14	Positive	1.20
	United Kingdom	GBP / USD	1.35	Negative	1.31	Neutral	1.38
	Japan	USD / JPY	153.47	Negative	158	Neutral	155
	Switzerland	USD / CHF	0.82	Neutral	0.81	Positive	0.77
	Australia	AUD / USD	0.72	Neutral	0.73	Neutral	0.71
	New-Zealand	NZD / USD	0.58	Positive	0.60	Positive	0.60
	Canada	USD / CAD	1.39	Neutral	1.38	Positive	1.35
Asia	China	USD / CNY	6.71	Neutral	6.70	Neutral	6.60
	India	USD / INR	95.55	Neutral	95.0	Neutral	95.0
Latam	Brazil	USD / BRL	5.10	Neutral	5.20	Neutral	5.00
	Mexico	USD / MXN	16.97	Neutral	17.00	Neutral	16.80
EMEA	South Africa	USD / ZAR	16.13	Neutral	16.00	Positive	15.75
	USD Index	DXY	99.12	Neutral	100.74	Negative	96.31

Source: Refinitiv - BNP Paribas WM

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