THEMATIC RESEARCH · INFLATION AND POLICY

# Inflation Is Back: The Fed, the ECB and the BoJ at a Crossroads

*In 72 hours the Fed held rates with two votes for a hike, the ECB held after two increases this year as Christine Lagarde announced an early exit, the Bank of Japan declared its 2% target achieved, and US PCE inflation rose to 3.6%. Energy has pushed inflation back towards 4% across the developed world. This report sets out where each central bank stands, what markets price and what to watch into December.*

Global Markets Research · Macro Desk Prepared by ANDRA MARKETS

~3.4%

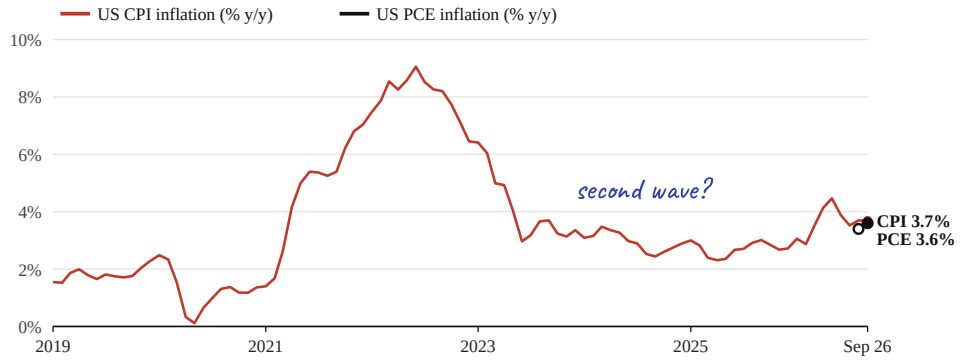
PCE 3.6%, EA 3.8%

**Coverage summary.** The September PCE price index, the Fed's preferred gauge, rose 3.6% year on year from 3.4%, with core at 3.1%, and third-quarter GDP grew at a 3.4% annualised pace. A day earlier the Fed had held its range at 3.75% to 4% in a 10-2 vote, with Beth Hammack and Lisa Cook preferring a hike. On Friday St. Louis Fed president Alberto Musalem said more tightening is needed "soon" and Dallas Fed president Lorie Logan argued for at least two more increases. In Frankfurt the ECB held its deposit rate at 2.5% after hikes in June and September, with euro-area inflation at 3.8% and energy prices up nearly 19%, and Christine Lagarde said she will step down on 7 February 2027, nine months early. The euro fell to a 17-month low. In Tokyo the Bank of Japan held at 1.25% but judged underlying inflation generally consistent with its 2% target, a landmark after three decades of fighting deflation.

everyone is leaning hawkish

| US PCE, SEP | FED DEC HIKE ODDS | EURO AREA HICP | LAGARDE EXIT |
|---|---|---|---|
| **3.6%** | **~70-80%** | **3.8%** | **7 Feb 2027** |
| *core 3.1%* | *CME FedWatch range* | *energy +18.8%* | *9 months early* |

**EXHIBIT 1. US INFLATION: CPI AND PCE (% YEAR ON YEAR)**




2022 peak ~9%, now ~4%

*Sources: BLS CPI-U via public CPI dataset to August 2026, September from BLS (14 Oct); BEA PCE for August and September (29 Oct 2026).*

## 1.0 Executive Summary

*Key takeaways*

~$100

**This is an energy-led second wave.** The Iran war has kept Brent above $100 for most of the autumn. US energy CPI is up about 20%, euro-area energy 18.8% and UK motor fuels 29.8%. Core measures have risen less, which is why central banks are split between holding and hiking.

energy shock, round two

**The Fed is likely to hike again in December.** Futures put the odds of a quarter-point move on 9 December at roughly 70% to 80% after the PCE data, up from about 42% a month ago. Logan wants at least 50 basis points more; markets price about two more hikes by March 2027.

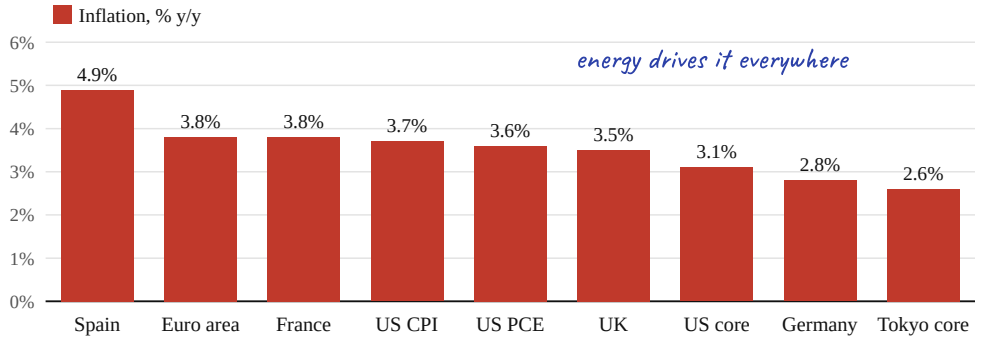
**The ECB paused, not pivoted.** Lagarde said the bank is not yet seeing second-round effects beyond those in its projections, with core inflation at 2.5% and wages stable. Spain's inflation is 4.9% and France's HICP 3.8%, so December is live.

**Lagarde's exit adds a governance question.** Her successor will be chosen by euro-area governments in the middle of an inflation shock, and the choice will be read as a signal on the ECB's reaction function from February.

**Japan has reached its target.** The BoJ's judgement that underlying inflation is generally consistent with 2% ends a 30-year chapter and opens the door to further normalisation, even as it held this week with Tokyo core inflation at 2.6%.

**Our reading.** No major central bank is cutting. The Fed and Bank of England lean towards hikes, the ECB is on hold with a bias to tighten, the BoJ is normalising and the RBI has hiked. For markets the implication is higher-for-longer real rates at the same moment equity investors are questioning the payoff from AI spending, which is the combination that hurt technology stocks this week.

**Exhibit 2. Inflation across economies, latest (% year on year)**



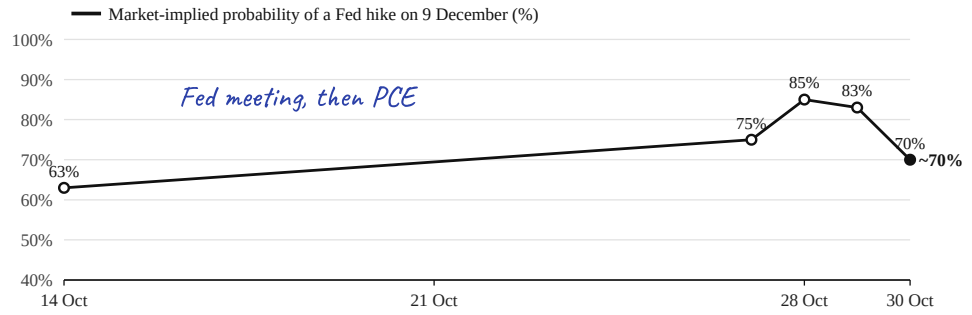

*Sources: INE, INSEE, Destatis (October flashes via FatTail); Eurostat (September); BLS and BEA (US); ONS (UK); Tokyo CPI via ATFX. Mixed months.*

## 2.0 The Fed

*Held in October, leaning to December*

The Federal Reserve held the federal funds range at 3.75% to 4% on 28 October, after holding from January to July and raising rates in September. Two members, Cleveland Fed president Beth Hammack and Governor Lisa Cook, dissented in favour of a quarter-point hike. Chair Kevin Warsh declined to give forward guidance and said the coming weeks would be data-rich. The data duly arrived: PCE inflation of 3.6% in September with core 3.1%, GDP growth of 3.4% annualised in the third quarter, and initial jobless claims of 194,000, below forecasts. On Friday three officials argued for higher rates. Musalem said "additional firming" will be needed "and soon"; Logan estimated the policy rate is at least 50 basis points below the level that would begin to bring inflation back to target. CNN reported that the October pause could create pressure for a larger move in December.

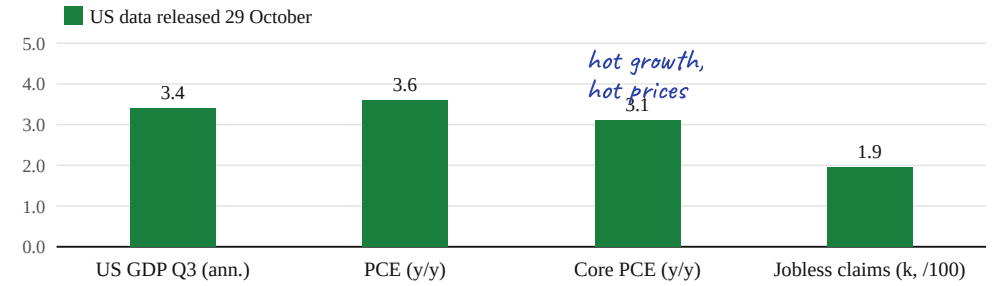
**Exhibit 3. Market-implied probability of a 25bp Fed hike on 9 December (%)**




42% → ~75% in a month

*Sources: CME FedWatch as reported by Forbes (14 Oct), Kiplinger (27 Oct), CNN (28 Oct), FXStreet (29 Oct) and CNBC and FatTail (30 Oct, range 69-76%). Approximate.*

**Exhibit 4. US data released on 29 October 2026**




*Sources: BEA (GDP, PCE); Department of Labor (claims, shown in hundreds of thousands) via FXStreet and ATFX.*

10y at 5.31% on 5 Oct

Markets have moved with the officials. FXStreet calculates that futures imply about two more hikes by March 2027, two and a half by June and close to three by September. The ten-year Treasury yield reached 5.31% on 5 October, its highest since 2002, and gold, near $4,000 an ounce, has eased as real rates rose. A hike in December would be the second of 2026; the open question is whether it is the last.

~5.3%

## 3.0 The ECB

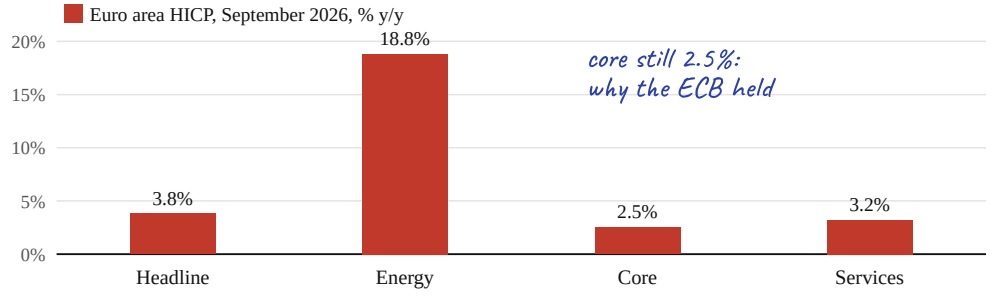
*On hold, with a new president coming*

~2.5%

The ECB kept its deposit rate at 2.5%, its main refinancing rate at 2.65% and its marginal lending rate at 2.90% on 29 October, as expected. It had raised rates in June, its first hike since 2023, and again in September as the Iran war pushed energy prices higher. Headline inflation reached 3.8% in September, the highest since September 2023, with energy up 18.8%, but core inflation was 2.5% and services 3.2%. Lagarde said the Governing Council is not yet seeing second-round effects beyond those in its September projections, and that wage growth and underlying inflation remain broadly stable. The European Commission's business climate indicator turned positive for the first time in three years. Average 10-year euro-area sovereign yields have risen about 35 basis points since September, tightening conditions without a rate move.

2.5% after June + Sept

**Exhibit 5. Euro area HICP components, September 2026 (% y/y)**




core 2.5%: the reason to wait

*Sources: Eurostat via Trading Economics and EBC; September 2026.*

Feb 2027: new president

Lagarde's announcement that she will leave on 7 February 2027, nine months before the end of her term, was the surprise of the meeting. The choice of successor falls to euro-area governments, and it will be made with inflation near 4% in several large economies, Spain at 4.9% and France at 3.8% in

~4%

October. Markets will read the appointment as a signal of how hawkish the ECB is willing to be in 2027. Meanwhile the euro fell to a 17-month low against the dollar after the ECB held and US inflation data came in hot.

**Exhibit 6. US dollars per euro since January 2025**




from 1.20 to ~1.12

*Source: Federal Reserve H.10 daily exchange rates to 23 October 2026; 17-month low reported on 29 October by FXStreet and TMGM.*

## 4.0 The Bank of Japan

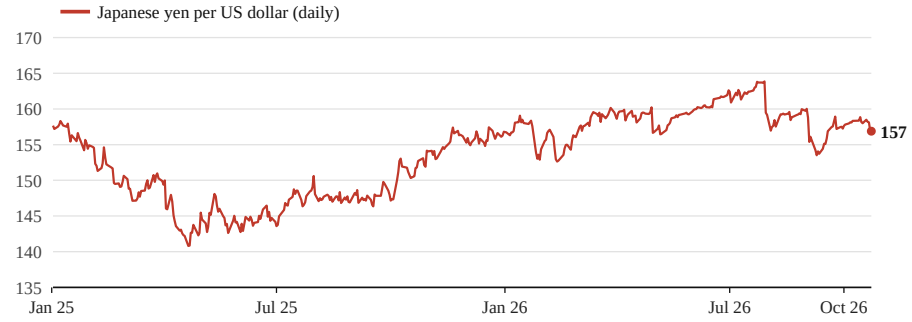
*Mission accomplished, carefully*

2%: target reached

The Bank of Japan held its policy rate at 1.25% on 30 October, as expected, but its quarterly outlook judged underlying inflation to be generally consistent with its 2% target. For a central bank that has spent most of three decades fighting deflation and only ended negative rates in 2024, it is a landmark. Tokyo core inflation eased to 2.6% from 2.7% in October. The yen weakened after the decision: it has traded between about 140 and 164 per dollar since January 2025, and the gap between Japanese and US rates remains the dominant driver. The BoJ's statement makes further hikes in 2027 more likely, which would narrow that gap.

~1.2%

**Exhibit 7. Japanese yen per US dollar since January 2025**




*Source: Federal Reserve H.10 daily exchange rates to 23 October 2026.*

## 5.0 The Global Picture

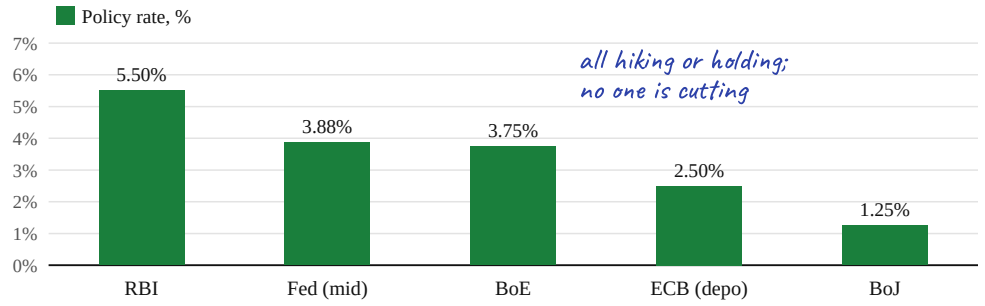
*Nobody is cutting*

~3.8%

Across the major economies, policy is tightening or on hold. The Bank of England, with Bank Rate at 3.75% and UK inflation at 3.5%, is expected to raise rates on 5 November, its first hike since 2023. The Reserve Bank of India raised its rate to 5.5% this month to defend the rupee. Canada and New Zealand were expected to raise rates this week. The common driver is energy: the IMF expects global inflation of 4.7% in 2026. The cutting cycle that began in 2024 is over, and for investors that means cash yields above 4% in the US, rising long-term yields and less room for equity multiples to expand.

5 central banks, 0 cuts

**Exhibit 8. Policy rates, end of October 2026 (%)**




*Sources: Federal Reserve (midpoint of 3.75-4.00%); Bank of England; ECB deposit facility; Bank of Japan; RBI.*

## 6.0 Scenarios and Calendar

*Into December*

*Exhibit A. Andra Markets scenarios to the December meetings*

| Scenario | Prob. | Fed | ECB | Market signal |
|---|---|---|---|---|
| Energy-led, contained | 50% | +25bp on 9 Dec, then pause | hold; bias to hike | yields stabilise near 5% |
| Second-round effects | 35% | +25bp and signals more; 50bp risk | hikes in December | 10y above 5.3%; tech under pressure |
| Oil eases | 15% | hold in December | hold | yields fall; risk assets rally |

*Andra Markets scenarios; probabilities are judgemental.*

*Exhibit B. Calendar*

| Date | Event | Why it matters |
|---|---|---|
| 4 Nov | Euro area October flash HICP | first full read after the national flashes |
| 5 Nov | Bank of England decision | hike expected |
| 6 Nov | US October jobs report | labour market vs inflation |
| Mid-Nov | US October CPI | last CPI before the Fed |
| 9 Dec | Fed decision with projections | second hike of 2026? |
| Mid-Dec | ECB decision | first meeting after Lagarde's announcement |
| 7 Feb 2027 | Lagarde steps down | new ECB president |

*Andra Markets selection; dates from official calendars and press reports.*

*reading: the easing cycle is over. energy put inflation back near 4% and every major central bank is holding or hiking*

## Methodology and Source Notes

**Method.** This report uses central bank statements and press conferences (Federal Reserve, ECB, Bank of Japan), official data from BEA, BLS, Eurostat, INE, INSEE and Destatis, market pricing from CME FedWatch as reported by the press, and Federal Reserve H.10 exchange rates, as available on 30 October 2026. Scenario probabilities are judgemental. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

**Principal sources.** Federal Reserve; ECB; Bank of Japan; BEA; BLS; Eurostat; INE; INSEE; Destatis; CME FedWatch via Kiplinger, CNN, CNBC, Forbes, FXStreet and FatTail; Yahoo Finance; CNBC; CNN; FXStreet; TMGM; ATFX; EBC; Trading Economics; Federal Reserve H.10.

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