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Consensus Trades Meet Harsh Market Reality in October

The dominant macroeconomic drivers in October were central bank policy, a rapidly deteriorating appetite for risk assets, and increasing demand for liquidity. Both the Federal Reserve and the European Central Bank left interest rates unchanged, while keeping the door open to a potential rate hike at their December meetings amid elevated energy prices and persistent inflation concerns. In contrast, the Bank of Canada raised rates by 25 basis points, narrowing the policy rate gap with other major central banks.

Global financial flows deteriorated rapidly during the month, particularly within the AI-related equity sector and the high-yield credit market, where spreads showed signs of acute stress. Such an environment would typically be supportive of traditional safe-haven assets. While some experienced strong inflows, government bonds, particularly U.S. Treasuries, recovered all of their September underperformance. Others, however, failed to benefit. Precious metals delivered a disappointing performance, with both gold and silver retreating to levels not seen for several months.

In the foreign exchange market, several unusual trading patterns emerged. From the perspective of the U.S. Dollar Index (DXY), October proved to be another successful month. The index gained 0.4%, closing at 101.88, a level last seen before President Trump's tariff announcement in March 2025.

The euro was the primary contributor to the DXY's strength. The ECB's decision to leave rates unchanged pushed the single currency to a 17-month low, although it remained above the key support level at $1.1100. The euro was the worst-performing G10 currency in October, declining 1.6% against the U.S. dollar.

As for the Japanese yen, the DXY's second-largest component, it finished the month as the third-worst-performing G10 currency, losing 0.18% against the dollar. Nevertheless, from a broader G10 perspective, October was a mixed month for the U.S. dollar. The greenback depreciated against seven G10 currencies, losing nearly 0.8% versus the Chinese renminbi and almost 1.0% against the British pound.

The U.S. dollar performed particularly poorly against commodity-linked currencies. The Australian dollar advanced 1.2%, the Canadian dollar gained 1.7%, and the Norwegian krone surged 4.4%. This exceptional performance was largely driven by rising energy prices, particularly natural gas. It appears that global investors preferred exposure through proxy assets rather than direct commodity holdings, providing additional support for the Norwegian krone throughout October.

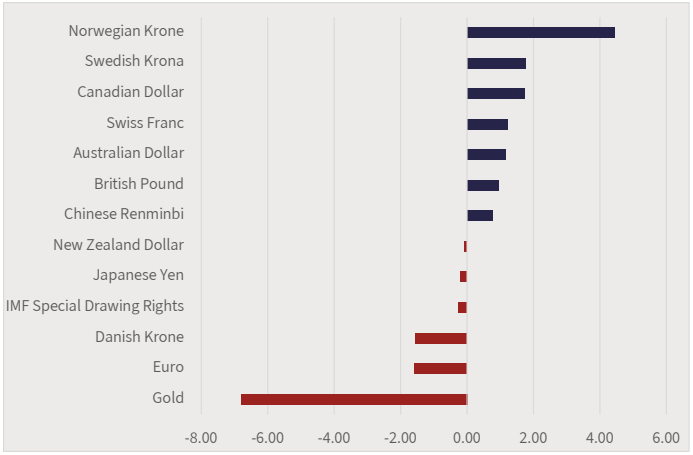
Looking ahead, geopolitical developments and the upcoming U.S. midterm elections are likely to play a key role in shaping the market landscape. Should the trends observed in October persist, diversification flows are expected to re-emerge. Greater political and economic stability in Europe could help ease pressure on battered bond markets, particularly in France, providing support for the euro.

However, for EUR/USD to decisively shake off downside risks, the pair will need to break above the key resistance level at 1.1350. Such a move would also be supportive of GBP/USD, where a decisive break above the major trendline around 1.3450 is required to generate sufficient upside momentum and open the way for a test of 1.3600.

As for the Japanese yen, USD/JPY must break below 157.00 to build enough bearish momentum and pave the way toward the 154.00 level.

More broadly, investors remain cautious, and elevated uncertainty is likely to keep foreign-exchange volatility at relatively high levels in the weeks ahead.

October performance vs. USD (%



Source: CAIM, 31 October 2026.

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