WAR CYCLE · BROKEN CORRELATIONS

Broken *Correlations*

The trader's map of the 2026 war cycle.

Gold is selling. The dollar is bid. The Fed has stopped pricing cuts and started pricing hikes. Every classic risk-off chart you have memorised is reading backwards this cycle. This brief lays out why, what it means for your positioning, and the five things the desk is watching to know when the pattern flips back.

TEXTBOOK WAR RESPONSE ▲ Gold ▼ Dollar ▼ Yields ▼ Fed	THIS WAR RESPONSE ▼ Gold ▲ Dollar ▲ Yields ▲ Fed
WHAT IT TELLS YOU **Inflation, not fear, is the dominant transmission channel.**	WHAT IT PAYS **Long DXY, short duration, fade gold rallies, watch oil.**

IF YOU READ NOTHING ELSE

The desk's read in five lines.

- **Oil is bid on a real, structural supply premium.** Shipping-lane risk, sanctions friction, and inventory pressure are keeping a floor under Brent that does not need a single new headline to hold.
- **Gold is selling despite war headlines** because the dominant transmission is not fear, it is rising real yields. The textbook safe-haven trade is being absorbed by Treasuries this cycle, not metal.
- **The dollar is bid for one reason: rate differential.** Higher US yields and sticky US inflation pull capital into USD assets faster than the war pulls it into gold.
- **The Fed has quietly U-turned.** CME Fed Funds futures now price a higher-than-fifty-per-cent probability of a hike this year, with the hike path extending into 2027. Cut pricing has been pulled.
- **The opportunity is in the reflex of the wrong trade.** Every trader still long gold "because war" is positioned against the desk. Every trader still short the dollar "because risk-off" is positioned against the desk.

> *When the textbook is not paying, the edge is in reading which channel the market has actually chosen, and trading only that channel.*
>
> BY THE DESK

THE STORY IN DATES

From October 2023 to May 2026.

War cycles do not move in straight lines. The market re-prices in waves: first fear, then inflation, then rates, then growth. The 2026 cycle has compressed every phase into a single trade.

01 Q4 2023 · The first leg

Conflict opens in the Middle East. Gold spikes on reflex, oil pops, the dollar wobbles. The textbook trade works for about three weeks.

02 2024 · The compression

Headlines escalate but cross-asset response narrows. Gold consolidates, oil holds the premium, US real yields begin a quiet grind higher as Fed cut hopes erode.

03 2025 · The pivot

Real yields break to multi-year highs. Gold underperforms. The dollar reasserts itself. The market starts pricing the possibility that this cycle's safe-haven is the long bond, then capitulates on that too, then chooses the dollar.

04 Q1 2026 · Strike escalations

Direct exchanges reignite the supply premium in oil. CPI prints firm. Breakeven inflation rises. Cut pricing falls out of Fed Funds futures.

05 May 2026 · Where we are

Fed Funds futures now price hikes, not cuts, for this year and next. Gold is below its rally high. DXY is bid. Yields are firm. The textbook is closed.

THE SUPPLY PREMIUM

Oil is bid for structural reasons, not just headlines.

If the only thing pricing into Brent was the next geopolitical headline, the strip would be vol around a flat path. It is not. The strip is bid. That is a structural premium, and it matters because it is the input that becomes inflation that becomes the Fed reaction.

The supply side

The Strait of Hormuz carries roughly a fifth of global petroleum liquids traffic according to the US EIA. Insurance premia have repriced. Tanker rerouting and shipping-lane friction add a per-barrel cost that does not unwind on a single headline.

The inventory side

Strategic reserves have been drawn on through past spikes. The cushion is thinner than it was earlier in the decade, so each new disruption has less buffer to absorb it.

The demand side

Asia demand has stayed firmer than the cautious end of consensus had pencilled in. Refinery margins are workable. Crack spreads have supported physical pull.

The risk side

Every escalation is asymmetric. The upside in Brent on a single shipping incident is larger than the downside on a single de-escalation headline. Optionality is priced into the strip.

CASCADE ▲ Oil → ▲ Headline CPI → ▲ Breakeven inflation → ▲ Front-end yields

THE REAL-YIELD PROBLEM

Gold is not failing as a safe-haven. It is losing the real-yield arbitrage.

Gold pays no coupon. When real yields rise, the opportunity cost of holding gold goes up against an inflation-protected Treasury that does pay a coupon. The relationship is one of the most stable in macro. This cycle, it is winning against the war bid.

The textbook trade

War headlines → safe-haven demand → gold bid. Works on a one-week horizon. Has worked dozens of times. Is not working now.

The real-yield trade

US 10-year real yields are elevated because nominal yields are rising faster than long-run inflation expectations. That spread, not the headline, is the dominant pricing channel for gold right now.

CASCADE ▲ Real yields → ▲ Opp. cost of gold → ▼ Gold

WHAT THE GOLD TAPE IS TELLING YOU

- **Rallies are sold.** Every headline pop has met supply. The shape of the chart is lower highs, not the run pattern of a fresh haven bid.
- **Macro funds are rotating.** The flow that used to go into gold on risk-off is going into the dollar and the short end of the curve.
- **Retail is long.** Survey positioning is heavy long gold. That is contra-tell, not confirmation.

THE NEW SAFE-HAVEN

Capital is choosing the dollar, not the metal, this cycle.

DXY does not need a single dovish foreign central bank to keep grinding higher. It just needs the rate differential to widen, and that is exactly what hike pricing in the US versus cut pricing abroad is delivering.

Yield spread

The US two-year against the G10 average is wide. Carry favours dollar long positions across most of the major pairs.

Flight to USTs

The largest, deepest fixed-income market in the world is absorbing the safety bid the way gold used to. The flow shows up in the dollar before it shows up in the metal.

Inflation premium

Sticky US inflation pulls forward terminal Fed expectations. DXY rides terminal pricing more than spot policy.

WHERE THE DOLLAR IS WINNING

- **USDJPY** on rate differential and a Bank of Japan that is still moving in millimetres.
- **EURUSD** as the ECB sits with the door open to cuts while the Fed talks hikes.
- **GBPUSD** as UK data softens into a Bank of England that has already begun to ease.
- **AUDUSD** with a softer commodity complex outside of energy.

THE U-TURN

Fed Funds futures are pricing hikes, not cuts.

The CME FedWatch grid is the single most important read in macro right now. Current target rate sits at **3.50 to 3.75 per cent**. The front end is fully patient, then hike probability builds month after month until hikes become the base case from the December 2026 meeting onwards. By mid-2027 the market is pricing roughly an eighty per cent chance of a net hike from current. This is the curve pricing the supply-side inflation it can see in oil, breakevens, and the dot plot.

FOMC MEETING	NO CHANGE	HIKE PRICED	READ
17 Jun 2026	**98.8%**	**0.0%**	Front-end patience locked in
29 Jul 2026	**88.4%**	**10.6%**	First hike whispers
16 Sep 2026	**70.5%**	**28.7%**	Skew building
28 Oct 2026	**59.7%**	**39.6%**	Two-way risk
09 Dec 2026	**41.2%**	**58.3%**	Hike becomes base case
27 Jan 2027	**32.8%**	**66.8%**	Two thirds priced
17 Mar 2027	**24.1%**	**75.7%**	Three quarters priced
28 Apr 2027	**20.2%**	**79.5%**	Heavy favourite
09 Jun 2027	**19.5%**	**80.2%**	Path holds
28 Jul 2027	**18.7%**	**81.1%**	Eighty per cent by mid-2027

Source: CME Group FedWatch Tool, cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html. Probabilities update intraday, confirm the live grid before sizing risk.

WHY SUPPLY-SIDE INFLATION PREVENTS CUTS

- **The Fed cannot print barrels of oil.** Monetary policy cannot ease supply-driven CPI. It can only demand-suppress it.
- **Credibility is the asset.** Cutting into rising inflation forfeits the anchor on long-end expectations. The Fed will not pay that price.
- **Real-economy data is firm enough.** Labour holds, services stick, growth muddles. There is no recession excuse to cut.

ONE PICTURE, THE WHOLE REGIME

The 2026 war cycle in one diagram.

Read this left to right. Each arrow is a real, observable transmission. There is no fear channel in this map. There is an inflation channel, a rates channel, a dollar channel, and the gold channel that is being out-bid by all three.

▲ OIL	→	▲ CPI	→	▲ BREAKEVENS	→	▲ REAL YIELDS	→	▲ DOLLAR	→	▼ GOLD

THE FED SITS ON TOP OF THIS CHAIN

FEEDBACK Breakevens and real yields rise → Fed Funds futures price hikes → ▲ Front-end yields → ▲ Dollar → ▼ Gold

WHAT THIS PICTURE TELLS YOU TO DO

- **Trade the channel that is paying.** The inflation channel pays long oil, long dollar, short duration, fade gold. Do not insist on the fear channel.
- **Respect the feedback loop.** Each leg reinforces the next. This is why pullbacks against the regime are shallow and trend continuations are deep.
- **Watch the top of the cascade.** If oil rolls over hard, the whole chain unwinds in sequence. That is the flip trade, and it has a clear leading signal.

HOW TO TRADE THIS REGIME

Five rules the desk is running on right now.

01 **Buy dollar pullbacks, do not chase strength.**
DXY trend is up. Entries on the retest of broken resistance turned support. Stops below the prior swing low. Never short the dollar against the trend just because "it has run".

02 **Fade gold rallies into supply.**
Use prior swing highs as the supply shelf. Set risk above the shelf, target the next demand level on the down side. Do not catch the knife on a single headline pop, wait for the rejection candle.

03 **Sell duration into rallies.**
Long-end Treasuries rally into every recession scare. Fade those rallies, the structural inflation premium is not gone in one weak data print.

04 **Treat oil as the regime barometer.**
If Brent holds the post-escalation shelf, the whole cascade holds. If it loses that shelf on volume, that is the first signal the regime is rotating.

05 **Position size for the second leg, not the first.**
War-cycle regimes pay in the second and third move, not the headline pop. Smaller initial size, scale into trend confirmation, hold for the cascade not the chop.

> *R is earned at the entry, not at the target. The market is paying anyone disciplined enough to trade the regime that is in front of them.*
>
> BY THE DESK

THE OTHER SIDE OF THE TRADE

Five signals that flip the regime.

No regime runs forever. The current one holds because every leg reinforces the next. That same property is what makes the flip violent when it comes. Here is what the desk is watching to know the rotation has started.

- **Brent loses its post-escalation shelf on volume.** The whole cascade reverses in sequence from the top. This is the leading tell, not a lagging confirmation.
- **Breakeven inflation rolls over.** Five-year breakevens turning lower means the market has stopped pricing the supply premium. The gold trade reawakens shortly after.
- **Fed Funds futures pull hike pricing.** The first time the curve goes back to flat from net hike, the dollar tops. The first time it prices cuts again, gold runs.
- **Real yields break their uptrend.** A clean break of the multi-year uptrend in ten-year real yields is the structural signal that gold's opportunity-cost headwind is gone.
- **A genuine growth shock.** Not a scare. A shock. PMIs collapsing through fifty, claims spiking, payrolls breaking. That forces the Fed and unwinds the regime in one move.

THE TRADE ON THE OTHER SIDE

Long gold

Patience entries on the first real-yield break, scale into the trend. The regime cannot flip without gold leading.

Short dollar

EURUSD and USDJPY are the cleanest expressions. Risk against the recent USD swing high.

Long duration

Long-end Treasuries on the breakout. Front-end first, belly follows, long-end last.

FROM THE DESK

The textbook is closed. The market is open.

Every macro cycle eventually punishes the trader who is fighting the regime in front of them. The 2026 war cycle is no different. The signal is in the price, the channel is inflation not fear, and the discipline is to keep trading what pays until the desk says it has flipped.

This brief is the framework. The live read is the daily work. If you want the desk's daily macro pulse, the regime call, the trade ideas with full ladders and the cross-asset signals that move first, the institutional desk briefings are how the desk runs that read for the people inside.

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