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The Great Hawkish Turn: Central Banks Tighten in Unison as War Lifts Inflation

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Date: October 2026 | Classification: Public Release | Topics: study, research, central-banks, interest-rates, inflation

EXECUTIVE SUMMARY

In a single week, the world’s central banks moved together against a war-driven energy shock: Australia raised rates to an 18-year high of 4.85 percent, Britain lifted Bank Rate to 4 percent for the first time since 2023, and markets priced roughly two-in-three odds of a Federal Reserve hike in December. This study measures the synchronised turn, the inflation forecasts behind it, and what it means for borrowers, markets and the fragile global recovery.

KEY RESEARCH FINDINGS & STRATEGIC OUTLOOK

Executive Summary LONDON The world’s major central banks have turned hawkish in unison. In the space of three days, Australia’s central bank lifted its cash rate to an 18-year high, the Bank of England raised interest rates for the first time in more than three years, and traders kept a December increase by the United States Federal Reserve priced at roughly two-in-three odds. The trigger in each case was the same: a Middle East conflict now in its ninth month, pushing energy prices higher and forcing inflation forecasts up across the developed world. The shift is striking because it reverses the direction of travel set only months ago. Bank of America counts 55 rate increases delivered or expected from major central banks this year, against just 11 expected in January, with 41 of them in the past six months. The era of cheap money, briefly interrupted by the pandemic-era inflation fight, is giving way to a longer, harder squeeze and this study measures how far it has already gone. Methodology This study rests on the official decisions and forecasts published by the central banks themselves the Reserve Bank of Australia’s November 3 statement and Statement on Monetary Policy, the Bank of England’s November 5 Monetary Policy Report, and the Federal Reserve’s October 28 decision and press conference cross-checked against reporting by Reuters, the Financial Times’ wire services and market data from CME FedWatch and Bank of America research. Every figure is labelled as an outcome, a forecast or a market-implied probability, and forecasts are never presented as facts. Where sources disagree on a market price or an odds reading, the study uses the most recent reading available at the time of writing and says so. The method follows our earlier study of the November artificial-intelligence

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