The US Dollar US Dollar Inflation Expectations Shock Signal

Why US Dollar Inflation Expectations Shock delivers a 0.80 pp spread on ICE US Dollar Index forward 60-day returns.

David Stendahl · Market Lab Analytics · Nov 10, 2026

What this signal is

Elevated US inflation expectations (10-year TIPS breakeven) shock z-score signals rising inflation-risk-premia that historically push the Fed toward tighter policy and support the dollar via rate-differential expansion. Compressed breakeven signals deflation-risk that typically pressures the dollar via Fed accommodation.

The composite is bounded between minus one and plus one through tanh. Today the composite reads +0.650 in the Extreme POS band after 77 trading days in the current phase.

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How the inputs compose

Elevated US inflation expectations (10-year TIPS breakeven) shock z-score signals rising inflation-risk-premia that historically push the Fed toward tighter policy and support the dollar via rate-differential expansion. Compressed breakeven signals deflation-risk that typically pressures the dollar via Fed accommodation. The signal takes 10-year TIPS implied inflation breakeven YoY change, z-scored against a 5-year rolling window, tanh-bounded.

What the state-conditional returns have actually done

Computed over 6,027 daily observations. Baseline ICE US Dollar Index forward 60-day return is mean plus 0.13 percent and median plus 0.14 percent.

> **Phase-conditional pattern:** Phase +1 (Breakeven spike, 2,055 days / 34 percent): plus 0.49 percent fwd60d, edge +0.36 pp. Phase 0 (Normal, 1,964 days / 33 percent): plus 0.22 percent fwd60d, edge +0.09 pp. Phase −1 (Breakeven collapse, 2,008 days / 33 percent): minus 0.31 percent fwd60d, edge −0.44 pp.

> 0.80 pp spread via the inflation expectations breakeven shock channel.

Three cases that frame how to read the signal

Case 1: Breakeven spike, 2022 inflation surge

10-year breakeven spiked through Q1-Q2 2022 as inflation shocks pushed the Fed to accelerate tightening. Signal held Phase +1 territory alongside dollar rally.

Case 2: Breakeven collapse, 2008 deflation shock

10-year breakeven collapsed through Q4 2008 as deflation-risk peaked. Signal held Phase −1 territory. (Dollar rallied on safe-haven despite breakeven collapse; channel-divergent.)

Case 3: Breakeven collapse, 2020 COVID deflation shock

10-year breakeven collapsed through March 2020 as COVID deflation-risk peaked. Signal held Phase −1 territory briefly before Fed liquidity reversed the move.

How to use the signal today

Composite is currently reading +0.650 in the Extreme POS band.

Pair with companion US Dollar signals listed in the Related section.

Methodology notes

The signal takes 10-year TIPS implied inflation breakeven YoY change, z-scored against a 5-year rolling window, tanh-bounded. Target: ICE US Dollar Index front-month continuous.

What this signal does not cover

Three limitations. Breakeven blends inflation expectations with inflation-risk premium. 2008 and 2020 episodes decoupled breakeven from dollar direction. Breakeven can move on liquidity events, not just inflation views.

Disclaimer

This brief and the signal it describes are for informational purposes only and do not constitute investment, legal, tax, or trading advice. Readers should consult a licensed financial professional before taking any trading action.

References

ICE US Dollar Index (DXY) futures daily settlement. BIS SDMX policy rate feed. IMF Currency Composition of Official Foreign Exchange Reserves (COFER). US Treasury International Capital System (TIC).

CSI Data Corporation, US Dollar Index front-month continuous (DX21050BD) series.