FI and FX Daily Brief

Summary. US Treasuries continues to range-trade as has been the case through most of August, with the 10y currently in the middle of the 4.60-4.75% range. EUR/USD hovers around 1.1650 and today all eyes will be on Warsh's remarks at Jackson Hole, starting at 16.00 CET. We have a new ECB call, still seeing a final hike in September but no longer expecting cuts next year, meaning that the deposit rate will remain 2.50% all through 2027. The NOK found support in stronger oil prices, pulling EUR/NOK back below 10.90. Meanwhile, EUR/SEK continues to face strong resistance around the 11.10-level, pushing NOK/SEK above 1.02 once again.

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EUR/USD's steady week continued yesterday with the cross hovering around 1.1650. WSJ reported that Trump is not looking to revert back to terms negotiated with Iran in the June's preliminary MoU. Both oil and natural gas prices edged higher, though remain close to past days' ranges. The Fed's Schmid (non-voter) and Hammack (voter) argued for tightening policy in their yesterday's remarks, but note that both are among the FOMC's most hawkish members that have dissented in favour of higher rates already in the past. Yesterday, our ECB strategists revised their 2027 forecast, which no longer includes any rate cuts. But even after the revision, we continue to see relative rates as a negative driver for EUR/USD towards next year. Today's main focus will naturally be on Kevin Warsh's Jackson Hole speech starting at 16CET. While Warsh is widely expected to stick with his 'no forward guidance policy', we expect a firm and clear-cut focus on bringing inflation down. We forecast the Fed hiking rates for the first time in December (largely in line with current pricing), but think that an earlier move remains a very real possibility - and a downside risk to EUR/USD.

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Treasuries sold off modestly on Thursday, with yields rising 2bp across the curve in a parallel shift. The 10Y closed at 4.672% (+2bp) and the 30Y at 5.189% (+2bp), while the 2Y rose 2bp to 4.232%. Brent oil rebounded to around USD90/bbl.

Fed speakers at Jackson Hole struck a notably hawkish tone. Kansas City Fed President Schmid said rates are "not restraining the economy" and may even be "accommodative on the short end," adding "we've got work to do." Cleveland Fed President Hammack echoed this, saying it is "appropriate to put some restraint" on the economy to bring inflation back to target. Boston Fed President Collins offered a more nuanced view, saying rates remain "mildly restrictive" but that she is "open to supporting an increase" if incoming data do not show continued disinflation. The Schmid/Hammack remarks represent the most explicit acknowledgement yet from Fed officials that the current policy stance may be insufficient - a meaningful shift in tone heading into the September FOMC.

On Warsh's speech today, consensus expects him to say little and avoid forward guidance - his communications strategy has deliberately put the onus on data rather than Fed signalling.

European rates tracked the US move, with yields rising 2bp across the board in a parallel shift. The Bund 10Y closed at 3.253% (+2bp), OAT 10Y at 4.105% (+2bp), and BTP 10Y at 4.075% (+2bp). The session was quiet on data, with the market's attention firmly on Friday's Schnabel and Warsh speeches.

The ECB July meeting minutes showed some members saw a case for "mildly restrictive" policy and that some would have supported a rate hike at the July meeting. ECB Governing Council member Radev added that the September, October and December meetings are all "live," that a "measured step deserves serious consideration" in September, and that the neutral rate is probably around 2.5% - implying meaningful further tightening from current levels. Together with Schnabel's remarks on Wednesday, the ECB account reinforces that the September hike is near-certain and that the debate has shifted to what comes after.

We revise our ECB call and no longer expect the ECB to cut rates in 2027. We still expect a final 25bp hike in September, taking the deposit rate to 2.50%, but now expect the ECB to keep it there throughout 2027 rather than cut it back to 2.00%.

Scandies

Norway's Q2 mainland GDP came in at +0.3% q/q - slightly below the +0.4% consensus but the fastest pace in four quarters, with the prior quarter revised down to +0.1%. This print is marginally below Norges Banks' estimate from the June MPR (0.4 %), but not enough to affect the outcome of the September MPC-meeting. Details were a bit to the downside as both private consumption and corporate investments fell short of expectations, whereas public demand and mainland-exports surprised to the upside. Markets remain priced at approximately a coin flip for the September meeting. NOK strengthened modestly on the data coupled with a rising oil price, with EUR/NOK falling below 10.90. We continue to expect Norges Bank to deliver the final hike of this cycle in September. We maintain our tactical neutral-to-bearish view on EUR/NOK.

Meanwhile, EUR/SEK continues to battle with the strong resistance at the 11.10-level, thus far failing to break through properly. Today we get the full GDP outcome for Q2 along with the NIER's ETS. Although important releases, scrutinized by the Riksbank among others, we do not expect these figures having any strong effect on the SEK, barring any major surprises. EUR/SEK has been trading unusually disconnected from relative macro lately and instead global sentiment, the USD, and the outlook for the ECB/Riksbank have been the driving forces, and we expect it to remain so at least over the near-term.

Tactical views:

FX

EUR/USD - USD debasement has come to an end, target 1.12 in 12M

EUR/NOK - Tactically neutral to slightly bearish. Strategically bullish.

EUR/SEK - Dovish Riksbank skews risks to the topside in EUR/SEK

EUR/GBP - Tactically neutral and strategically bullish

USD/JPY - Looking for strategic selling opportunities

EUR/DKK - DN to cap EUR/DKK around the 7.4758 peak from June

USD/CNY - Tactically sell on rallies, strategically bearish

Fixed Income

Europe - Bund ASW-spreads to tighten

US - 10Y US Treasury yields to hit 5% over the coming year

Sweden - Look for SEK underperformance vs EUR

Norway - Look to enter steepeners in the coming month

Denmark - Long high-coupon callables versus DGBs and swaps

Commodities/Energy

Oil - remains in the hands of developments in the Middle East

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