# FI and FX Daily Brief

**Summary**

Energy prices remain elevated with Brent trading around USD107/barrel despite the news of Saudi Arabia's east-west pipeline resuming exports yesterday (at a capacity of 3.5mb/d vs. a typical capacity of 5mb/d). This, in turn, continues to push global bond yields higher. US Treasury yields climbed about 8bp higher across the curve. European yields mirrored the move to a lesser extent, after ECB's Lagarde reiterated that the ECB remains on the "middle path" for monetary policy and that the appropriate course is a "measured response". Our assessment is that this correlates to one or two additional hikes and not another 100bp, as implied by market pricing for YE2027. 12M EUR/USD FX forward reached its highest level since early July yesterday, and EUR/USD spot moved another small leg lower close to 1.1360. This morning, the Reserve Bank of Australia (RBA) hiked rates by 25bp as widely expected. While the Board left the door open for further rate hikes, the decision did not drive a significant reaction in AUD/USD.

**Majors FI**

Bond yields continued to move higher over yesterday's session, as the US and Iran appear to be stuck in their negotiations. Brent crude ended the day around USD 107/bbl, while USD swap rates and US Treasury yields climbed about 8bp higher across the curve. European yields mirrored the move to a lesser extent, gaining about 5bp across the curve in EUR swap rates and Bund yields, however the front-end later retraced most of the move. The 10Y OAT-Bund spread widened 3bp to about 113bp and remains at 12-year highs.

ECB's Lagarde reiterated that the ECB remains on the "middle path" for monetary policy and that the appropriate course is a "measured response". Our assessment is that this correlates to one or two additional hikes and not another 100bp, as implied by market pricing for YE2027. Market pricing for a rate hike at the October meeting pulled back temporarily by 2bp following Lagarde's remarks and risks are increasingly skewed towards later hikes.

This morning, the RBA hiked its cash rate by 25bp to 4.60% in a unanimous decision. The move was near fully priced in by markets, and a total of 1-2 more rate hikes are expected over the coming year. With the policy rate already at a relatively high level, we think risks are skewed towards the RBA ultimately delivering fewer rate hikes.

Today, we receive the September flash inflation print for Spain, which will give the first indication of where the euro area inflation print lands on Friday. In the US, the August Job openings and JOLTS survey are set for release ahead of the Jobs report on Friday. Additionally, a string of ECB and Fed speakers will be on the wires.

On supply, the Netherlands will sell upwards of EUR6bn in the 2048 bond. Italy will sell up to EUR6.5bn across the 2032 and 2036 bonds, with an additional EUR1.5bn in a 2036 floating rate bond.

**Majors FX**

The continuing rise in energy prices and global bond yields pushed EUR/USD another small leg lower yesterday. European currencies were under pressure also more generally, with Scandies and CHF being the relative underperformers, while JPY strengthened alongside USD vis-à-vis EUR.

JPY gained support especially after the comments heard from Atsushi Mimura, the top FX official from the Japan's ministry of finance. That said, we remain doubtful that (verbal) intervention alone will sustainably turn the tide for the yen without BoJ delivering on the rate hike expectations. Markets are currently pricing in around 35-40% probability of a back-to-back hike at the October meeting.

US commodity terms-of-trade have improved to their strongest level since 2023, while the opposite is true for the euro area. Relative rates are also increasingly weighing on EUR/USD, as 12M EUR/USD FX forward reached its highest level since early July yesterday. While the FX forwards are still well below their 2025 highs, the widening of the interest rate differential is now purely driven by real rate expectations (rather than tariff-inflation). In other words, USD is gaining support from the continuous improvement of the real economic growth outlook vis-à-vis EUR - a move we believe will likely extend even further. We discuss the implications of higher energy prices in more detail in this morning's Reading the Markets USD, 29 September.

RBA's widely anticipated 25bp rate hike had little impact on AUD/USD this morning. While the decision was unanimous and the Board left the door open for "increasing the cash rate target further if needed", markets were already pricing in 1-2 additional rate hikes going into the meeting. We maintain our negative stance on AUD/USD and expect the cross to trade lower towards 0.68 from the current level just above 0.70.

**Scandies**

The NOK has weakened somewhat today despite Brent crude moving back above USD 100/bbl and currently trading around USD 105/bbl. EURNOK has moved towards the upper end of the range seen over the past week, around 10.85, while USDNOK has risen to around 9.54, marking the weakest NOK level against the USD over the past month. The move comes against a backdrop of higher global yields, with US rates and Treasuries leading the move and European rates also moving higher, which likely weighs on the NOK through a narrower relative rate differential, particularly versus the USD. A somewhat more risk-off market tone may also have contributed. Norwegian rates are higher across the

curve, with the 4-15Y segment up around 3bp, while moves have been more limited at the very front end and in the ultra-long end.

For EUR/DKK, this week's highlight will be the release of September's FX reserve data on Friday. Danmarks Nationalbank (DN) sold DKK5.6bn in FX intervention in August to fend off upwards pressure on EUR/DKK. During September, the pressure seems to have eased slightly: EUR/DKK spot traded a little lower than the top from August and the net position has developed as expected. In addition, the monthly FX hedging data from the Danish pension funds covering August are published tomorrow.

**Tactical views**

**FX**

EUR/USD - On a structurally declining trend, target 1.12 in 12M

EUR/NOK - Tactically neutral. 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 7.4760 peak from August

USD/CNY - Tactically sell on rallies, strategically bearish

**Fixed Income**

Europe - Bund ASW-spreads to tighten

US - 10Y US Treasury yield to hit 5.2% 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**

Oil - to stay elevated near-term on tight supply conditions

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