29 September 2026

Reading the Markets USD

Persistent energy shock supports EUR/USD decline

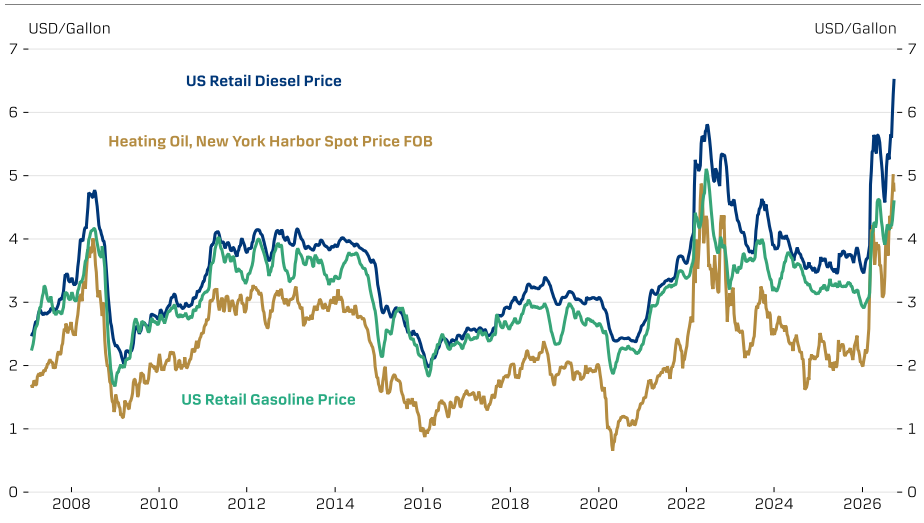
Energy prices in the US are rising again, especially fuel prices. Diesel prices have reached a record USD6.5 per gallon, while the spot price for heating oil recently hit almost USD5 per gallon, also a record high (see Chart 1).

Despite elevated energy prices, recent indicators suggest consumption remains resilient. In August, retail sales excluding gasoline rose by a solid 1.1% m/m, following a 3.4% q/q SAAR increase in real consumption expenditure in Q2. According to the Atlanta Fed's GDPNow, consumption is expected to strengthen further, to 4.1% in Q3, contributing 2.8 percentage points to quarterly GDP growth.

The cyclical outlook has improved significantly, according to the latest indicators, which could have implications for consumption. The September flash PMI suggested strong business activity and a marked pickup in labour demand (see Chart 2). Nominal wage growth was muted during the spring and summer, but with labour demand rising and the pool of available workers small, the outlook points to a pickup in wage growth from here, as well as higher inflation risks. However, with the economy facing renewed energy price pressures and broader price pressures from strong demand, growth in real wages could remain muted.

That said, consumption does not necessarily need strong real wage growth to hold up. In recent years, it has increasingly relied on wealth gains. If equity returns continue to be positive, this could support consumption going forward.

Chart 1. US fuel prices have hit record highs

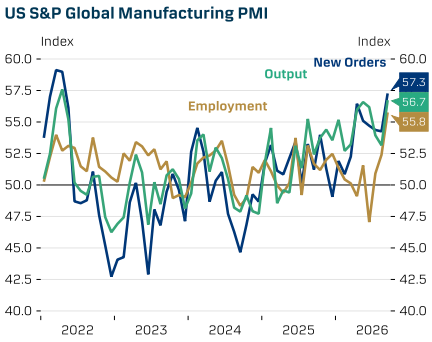


Source: Macrobond, Energy Information Administration, Danske Bank

Key views

- **Macro:** Cyclical outlook remains healthy, even if stagnant labour supply growth weighs on real growth. GDP +2.1% in 2026, in line with consensus.
- **The Fed:** 25bp hikes in December and March. Rates held at 4.25-4.50% for the rest of 2027 (below market pricing).
- **EUR/USD:** Relative macro and monetary policy outlook push EUR/USD lower towards 1.12 on a 12M horizon. Below consensus (1.19) and forward (1.15).
- **10Y UST:** 5.20% in 12M (below forward at 5.440%).

Chart 2: PMIs show strong uptick in activity and employment



Source: Macrobond, US BEA, Danske Bank

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Furthermore, current US growth does not rely only on consumption. Something will have to give to take some heat out of the economy, which is probably running above potential. With strong investment demand, especially related to AI, overall growth would still be healthy even with slightly weaker consumption growth than we see today.

Waning support from the US oil sector

From a supply-side perspective, the US oil sector has helped ease the supply constraint triggered by the Iran war and closing of the Strait of Hormuz. US net energy exports have increase more than 50% in volume terms since the war started. From a long-term historical perspective, US net exports are now around the same level as US net imports in the 1970s during the first oil crises.

Part of the additional exports from the US has come from the significant release of strategic reserves. During the spring, the US was selling close to 1.5mb/d on a weekly basis. However, in recent weeks selling of strategic reserves has almost come to a halt. While the US continues to expand LNG export capacity that will enable further growth in LNG exports, it will be more difficult to sustain higher oil exports in the short term.

It might be possible though in the longer term. The oil rig count has been on the rise this year as investments in the oil industry have picked up, which could eventually result in higher oil output and thus exports. The forward still discounts a return to an oil price around USD70/bbl; hence, it is not a given it would be profitable to expand production. As the energy crisis drags on, the case may strengthen further.

Persistent energy shock would help maintain EUR/USD on a declining trend

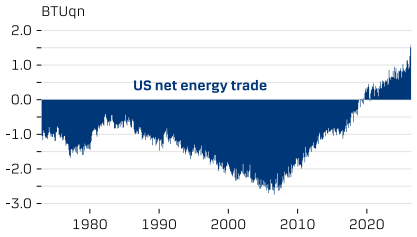
The past week has illustrated how USD exposure remains a strong portfolio diversifier in an environment where the main risks are related to higher energy prices and/or global monetary policy tightening more than expected. US commodity terms-of-trade have improved to the strongest level since early 2023, while the opposite is true for the euro area.

The asymmetric outcome space ahead is also visible in EUR/USD options pricing. 25-delta risk reversal skews have declined over the past week, but in contrast to last spring, the move is now visible also in longer-dated contracts (Chart 5). The 1y skew fell temporarily to the most negative level observed since March 2025, which is pre-Liberation Day. We recommend EUR-based investors hedging USD-denominated assets to consider risk reversals as an alternative to forwards, to both benefit from the favourable skew and to maintain profit potential from further USD strength.

EUR/USD FX forwards have continued to rise steadily across the curve as markets reprice the Fed's terminal rate expectations higher, not just outright but vs. the ECB. Current levels are still far below 2025 highs, but importantly, the entire rate differential is now explained by the real rate spread. In 2025, FX forwards rose because markets were pricing significantly faster inflation in the US due to the tariffs, but this is no longer the case. The recent rise has been driven by the perception of a relatively strong (real) economy, and we think the move has further room to go.

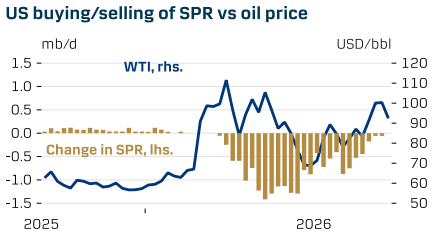
We have maintained our 12M EUR/USD spot forecast at 1.12 since last May, but unless energy prices suddenly ease significantly lower, we think risks are tilted towards the cross declining even below our current target level.

Chart 3: US ToT improves



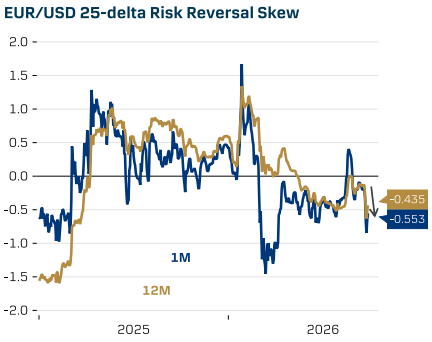
Source: Macrobond, EIA, Danske Bank

Chart 4: SPR drawdown slows



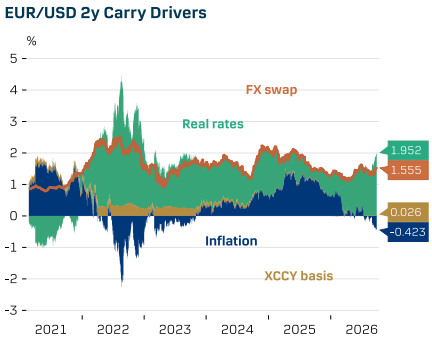
Sources: Macrobond, Bloomberg, Danske Bank

Chart 5: Longer-dated skews decline



Note: Past performance is not a reliable indicator of current or future results.
Sources: Bloomberg, Danske Bank

Chart 6: EUR/USD FX forwards rise due to wider real rate spread



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Sources: Bloomberg, Danske Bank

Key data releases this week

This week's key release is the September jobs report on Friday. We expect a strong report with NFP at +100k, above consensus at +84k, the unemployment rate down to 4.0% from 4.1% (consensus: unchanged at 4.1%), and average hourly earnings at 0.3% m/m, in line with consensus. We think the labour market is heating up. Recent employment indicators, such as ADP's weekly pulse and the PMI employment index, have been strong, pointing to solid September job growth. Unemployment claims are near their lowest level since 2023. Low participation, high job growth and low claims support a further drop in unemployment. If we are right, it would be a hawkish signal for the Fed. Then we would have to consider adding a hike for the October meeting.

On Wednesday we get August's PCE inflation, the Fed's preferred measure. Headline inflation likely rose from 0.2% m/m in July, driven by higher energy prices in August. Core inflation remains elevated, at 3.3% in July. Note that the US Bureau of Economic Analysis will update its methodology for some PCE subcomponents, which should provide some relief to core inflation. However, given the strong underlying economy, core PCE could still tick up. We also receive final revision of Q2 GDP. On Thursday ISM will publish its September manufacturing index. Early indicators have sent mixed signals on manufacturing activity. Flash manufacturing PMIs came in really strong, while regional Fed PMIs showed some moderation.

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