Article | 29 September 2026

FX

FX Daily: Lagarde lifts some support from the euro

Yesterday, we felt EUR/USD had a good chance of some recovery, but Gulf developments and dovish comments from Christine Lagarde have tilted risks back to the downside. Elsewhere, AUD is under some pressure after the RBA delivered its expected rate hike but revealed it had considered holding rates steady



Dovish remarks by ECB President Christine Lagarde are leaving the euro more vulnerable

USD: Focus on consumer confidence and JOLTS today

Optimism about any progress in US-Iran negotiations is fading at the start of this week, with Iranian officials reportedly saying a deal is unlikely before the 3 November US midterms. For now, the Trump administration is not budging on key conditions and yesterday refused a proposal by Iran to reopen the Strait of Hormuz.

Brent touched $109/bbl yesterday (now $107), delivering another blow to the bond market. For now, equities have suffered some knock-on effect but are absorbing the shock quite well, but the risks are that high valuations reach a risky tipping point with rates rising so rapidly. It's a tail risk that is getting fatter, and one that would be associated with big dollar gains.

For now, the greenback is continuing to find support without any big break. Interestingly, the

Swiss franc was the worst performing currency alongside NOK and SEK yesterday. While Scandies are generally disfavoured in squeezed liquidity, CHF weakness appears a more structural problem at this stage. The Swiss National Bank's dovish surprise last week may be fuelling a preference for playing the hawkish Fed story via USD/CHF as opposed to USD/JPY, where intervention risk remains elevated. An October Fed hike could see the USD/CHF rally extend to 0.84-0.85.

Today's calendar should start to force US data back into the discussion. September consumer confidence is expected to stabilise around 89. JOLTS will offer more nuance to the August jobs picture. We feel payrolls were too strong last month and will be revised lower on Friday.

We need to see some stability in bonds for the dollar to correct lower. That relies heavily on oil, and the latest news isn't encouraging. Upside risks are rising again for the greenback.

Francesco Pesole

EUR: Surprise dovish tilt by Lagarde

The euro held up relatively well yesterday considering the slew of dovish-leaning comments by ECB President Lagarde, which favoured a widening in the SOFR-ESTR 2yr swap to beyond 155bp. We are now not far from the 163bp max width reached in early July.

Lagarde seemed willing to tone down some market enthusiasm about an October hike yesterday, saying that tight financial conditions are limiting the pass-through of energy costs to the broader economy. She also stressed that the ECB should adopt a "measured response" given no evidence of second-round effects.

Her remarks confirm our suspicion that if one central bank hikes in October, it will be the Fed, and not the ECB. Pricing is now 17bp and 9bp, respectively. Our macro team thinks both will wait until December, hence our baseline view for a higher EUR/USD by year-end. But any hint of strong US data could prompt a test of the 1.1320-30 summer lows, with Lagarde's comments lifting some support off the euro.

Francesco Pesole

AUD: RBA considered a hold today

The Reserve Bank of Australia hiked rates as expected to 4.60% this morning. AUD's first reaction was quite muted. The statement retained a hawkish stance, signalling upside risks to inflation and openness to hike again if needed.

However, the press conference (still ongoing at the time of writing) is adding a dovish taint and AUD has come under pressure, breaking below 0.700. Governor Michele Bullock said policymakers considered holding rates today, given risks to the housing market and a

potentially slower global economy due to the Middle East conflict.

There is 16bp left in the AUD OIS by year-end at the moment. It seems fair pricing. Despite Bullock's comment about a pause, the statement suggests the RBA is still ready to act, as it has been so far throughout 2026. If anything, the implied probability of a back-to-back hike in November at around 60% appears a bit too high.

Our call for AUD/USD at 0.720 in December has always relied heavily on the USD softening into year-end and easing global liquidity conditions. AUD's fundamentals remain solid, and this hike supports them further, so we remain confident that in that USD-bearish scenario into year-end, AUD would be an outperformer. But clearly, global conditions have worsened, and near-term downside risks have increased for AUD/USD.

Francesco Pesole

CEE: The region remains in the wake of EM currency weakness

The CEE region's economic calendar is light today, with the global narrative remaining the primary driver. The Czech Republic is returning from a public holiday and market closure, which should lead to some catching up with the higher rates seen elsewhere in the region. We have observed a mixed opening across the region this week, with increased pressure on the forint while the zloty has seen some consolidation. Overall, however, emerging market currencies have faced pressure due to a stronger US dollar and higher global energy prices. This picture is likely to persist for CEE currencies in the coming days unless there is a significant shift in the global narrative or the geopolitical landscape. We therefore remain bearish for now.

Following the debt agency revision in Hungary, this year's gross borrowing needs rose by 25%, mainly through local-currency bonds (HGBs), retail bonds and T-bills. We estimate that AKK has completed roughly 77% of planned HGB issuance, slightly ahead of the 75% end-September pro rata mark. At the same time, the debt agency indicates a slightly lower supply of government bonds and sees no further need for FX issuance due to the inflow of EU funds. Overall, the funding situation appears to be under control, yet the debt agency will continue issuance at only a slightly slower pace for the remainder of the year.

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