Article | 2 October 2026

FX

FX Daily: Tipping point

Markets reached a point of inflection yesterday, where the sell-off in French debt broke the narrative of ever-higher short-term market interest rates. This questions whether central banks are about to extend into policy error territory with tightening cycles. If that is the case, the ECB has less cause to tighten than the Fed, and EUR/USD can stay offered



EUR/USD is expected to stay offered as markets price in French risk premium and rethink ECB tightening

USD: Pricing of Fed cycle looks stickier than most

A big day in FX markets yesterday saw the sell-off in French government debt dominate global markets. And it was the first time since late August that short-dated US interest rates had a sizeable fall. Here investors have started to reassess whether central banks – more so the European Central Bank than the Federal Reserve – need to deliver another 75bp of tightening to subdue inflation. We discuss the ECB and the euro below.

Perhaps adding to the correction lower in US rates were comments from Fed Vice Chair Philip Jefferson echoing remarks from John Williams earlier in the week that the Fed should not rush into back-to-back rate hikes. Pricing for a Fed hike in October has now dropped to just 28% from 70% a week ago, and it looks like the market is going to settle into the view that the next hike comes in December.

Feeding into the Fed story will be today's release of the September non-farm payroll figure. Consensus expects around an +85/90k headline gain, an unemployment rate remaining low at 4.1% and a healthy average earnings figure near 3.1% year-on-year. Given very low growth in the US labour force, we doubt a downside disappointment in the headline number will weigh heavily on US rates or the dollar.

With energy prices remaining at their highs and the US activity story resilient, it looks like the dollar can largely hold gains if not extend a little higher – especially against the euro. DXY broke to a new high for the year above 101.80 yesterday and looks biased to head up to the 102.85 area.

Chris Turner

EUR: Most roads lead to a weaker EUR/USD

EUR/USD decisively broke to new lows for the year yesterday as the sell-off in French debt finally came home to roost. Little prospect of fiscal consolidation anytime soon leaves French debt vulnerable over the coming months, and yesterday dramatically questioned whether the ECB could push ahead with another 75bp of tightening during a very difficult time for European government bond markets. In particular, the central bank must be worried about the contagion of the French sell-off into the likes of Italy and even Spain. Investors assume that any ECB fix to the bond market sell-off either involves much less or no tightening of policy (euro bearish) or, in extremis, the use of the Transmission Protection Instrument to buy bonds (very euro bearish).

My colleague, Francesco Pesole, wrote a nice article on how the market could easily add another 2% in risk premium to the euro if this bond market sell-off extends. And after the break of technical support yesterday, near-term EUR/USD looks biased to 1.1100/1120, if not closer to 1.10. We would expect upside corrections to be relatively shallow now.

The French debt sell-off, the rise in volatility and, most importantly, the softening of interest rates all conspired to send the Swiss franc a lot higher yesterday. If the re-pricing of ECB rates lower is going to be the dominant narrative near term, EUR/CHF can correct back to the 0.9250 area.

Chris Turner

CEE: Romania risk rises, koruna turns bullish

Yesterday, the Romanian leu recorded its largest one-day move since the government collapsed in May, with EUR/RON jumping from just below 5.280 to 5.344. The move followed the new government's failed confidence vote the day before and came one day before S&P's key sovereign rating review. Our baseline is for no rating change today, supported by an improving fiscal profile and continued EU fund inflows, but market stress has raised

speculation about a downgrade.

Romania is already rated at the lowest investment-grade level with a negative outlook. A downgrade, particularly a loss of investment-grade status, would likely trigger renewed pressure on Romanian assets and a sharper reaction in both FX and bonds than seen this week. Romanian yields remain low relative to CEE peers, leaving expensive bonds vulnerable to such a shock, in our view. Meanwhile, the central bank appears increasingly willing to allow greater EUR/RON flexibility, adding further upside risk to the pair.

Elsewhere in the region, the calendar is quiet today, with attention focused on US payrolls. However, yesterday's massive repricing in front-end core rates should have repercussions in the region, and we are likely to see a rally in CEE rates as well. The drop in EUR rates should imply a widening of spreads and provide some support for FX. Given that the global environment remains risk-averse and EUR/USD is eyeing new lows, we prefer low-beta currencies, specifically, the Czech koruna.

EUR/CZK remains driven primarily by the interest rate differential, whereas the forint and zloty are more sensitive to outright energy prices and market sentiment. Consequently, EUR/CZK could dip back below 24.400 today, and we expect the Czech National Bank to adopt a more hawkish stance looking ahead. We therefore believe that EUR/CZK has peaked, and we are turning bullish on the Czech koruna.

Frantisek Taborsky

KZT: Growing state FX sales backlog should cushion downside

The tenge appreciated by 4.8% against the USD in September, outperforming our expectations despite a stronger DXY. In our view, the move was driven primarily by private capital inflows, most notably continued non-resident demand for KZT government bonds. Additional support may also have come through corporate borrowing and other private-sector inflows, while the contribution from the trade channel remains less clear given CPC-related export disruptions.

Looking ahead, portfolio inflows should remain supportive. Kazakhstan continues to offer an attractive real rate of around 7%, while positive rating momentum, improving market infrastructure and growing market liquidity underpin foreign investor interest. However, after appreciating roughly 12% against the USD since the outbreak of the US-Iran conflict, the tenge is now trading near levels rarely sustained before 2022 and, according to our models, is approaching fair value.

At the same time, the growing backlog of state FX sales may offer support in case of deterioration in the market mood. Since June, NFRK FX sales have effectively been capped at around $200m per month, well below estimated fiscal financing needs of $500-600m per

month, as the authorities sought to avoid excessive FX supply on the domestic market. As a result, a sizeable FX sales backlog is accumulating. We estimate the deferred sales requirement at around $1.0-1.5bn, reflecting fiscal spending obligations that will ultimately need to be financed.

Overall, we see the balance of risks as supportive for KZT stability. While further appreciation may prove difficult from current levels, the combination of still-favourable capital inflows and potential state FX sales should help keep the currency broadly resilient. The stronger KZT, which has contributed to the slowdown in CPI to below-consensus 9.3% year-on-year in September, also reinforces the case for another modest National Bank of Kazakhstan rate cut on 23 October, although we continue to see only limited scope for a deeper easing cycle in the medium-term.

Dmitry Dolgin

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.