Article | 6 October 2026 FX

FX Daily: French risk keeps harming ECB hawks

Alongside a direct – albeit so far relatively contained – build-up of fiscal premium, the euro continues to suffer from an unwinding of ECB rate hike expectations due to French bond turbulence. Risks remain firmly on the downside for EUR/USD. Elsewhere, markets will seek clarity on a November hike from Bank of England speakers this week



Markets are awaiting details from Marine Le Pen on a counter-budget

USD: Staying supported

The dollar has continued to find support at the start of this week. The euro's idiosyncratic weakness is still playing a role, and so are global bond yields that keep pushing higher. Strong equity performance likely capped USD gains and allowed some high-beta currencies to outperform, but the domestic backdrop remains constructive for the greenback.

Yesterday, the ISM services index eased to 54.9 from 55.4 (consensus 55.0), but remained firmly in expansion territory. Business activity and new orders softened, though stronger employment and order backlogs, alongside a fresh high in prices paid, helped offset the decline. Overall, slightly hawkish news if anything (especially on jobs and prices), but not enough to materially alter the Fed narrative. Markets are likely to remain comfortable with an

October hold provided September core CPI (released on 14 October) prints at 0.2% MoM, which is where consensus is converging. But a hike in December remains the base case, also for our macro team.

Today's calendar is lighter, with only trade data and weekly ADP payrolls. There are a few Fed speakers to watch: Williams, Musalem, Bowman and Schmid. For DXY, developments in the French bond market may matter more than domestic US factors this week. Risks remain skewed to the upside, although the Fed story may not change materially over the next few days given the light calendar. Tomorrow's FOMC minutes may have a relatively contained impact given the soft-ish US data of the past couple of weeks.

Francesco Pesole

EUR: 1.110 remains in sight

The euro started the week at the bottom of the G10 scorecard, a clear signal that turbulence in the French bond market remains firmly on FX investors' radars. The euro is being affected through two channels: a direct one, where a fiscal risk premium (so far not extreme) has been added, and an indirect one via a repricing lower in ECB rate expectations.

Pricing for the March ECB meeting has declined from 80bp on 24 September to 45bp now. This has been a very EUR-specific move and has pushed the EUR:USD two-year swap rate differential (ESTR-SOFR) to -167bp. The last time the spread was at these levels was in August 2025. At that point, EUR/USD was trading around 1.16-1.17, but that reflected a sizeable USD-specific risk premium after Liberation Day and a sharp rise in USD hedging demand. Before Liberation Day, a swap spread at current levels was consistent with EUR/USD closer to 1.08.

Some relief in French bonds yesterday helped EUR/USD recover to just above 1.120 after a fall to 1.1160, but we don't have much confidence in a sustained rebound. The fiscal risk premium is still relatively limited, leaving scope for EUR/USD to test 1.110 or even 1.100 if bond market stress intensifies. Markets are now awaiting details from Marine Le Pen on a counter-budget.

Francesco Pesole

GBP: BoE speaks to shed light on November hike

The spotlight this week is firmly on Bank of England speakers. Catherine Mann speaks today after voting for a hike at both the July and September meetings. Megan Greene and Huw Pill, who also backed hikes, are due on Thursday. The same day brings appearances from Andrew Bailey and Clare Lombardelli, the two neutral MPC members viewed as the most likely swing votes ahead of the November meeting.

Markets currently price 21bp for next month, 36bp by year-end and 89bp by June. Although the risk of a November move has risen materially, the broader Sonia curve still looks far too

hawkishly priced in our view. Translating that into a EUR/GBP rally remains challenging. Elevated oil prices should keep downward pressure on repricing in the Sonia curve, while the euro continues to face significant domestic headwinds. A retest of the mid-July lows around 0.846 appears the most likely near-term move, and we suspect EUR/GBP may reach 0.840 before clear support emerges.

Francesco Pesole

CZK: Inflation to revive hawkish CNB bets

Czech September inflation is due today. We expect headline inflation to rise from 1.9% to 2.5% year-on-year, slightly above market expectations and the CNB's August forecast of 2.2%. As in Poland last week, higher fuel prices should be the main driver. However, the CNB is more focused on core inflation, where the outlook is less favourable; we expect it to edge up from 3.0% to 3.1%.

With energy prices still elevated and little relief in sight, we expect the CNB to hike again in November. It would take a sizeable downside inflation surprise to avert a hike. Although growth is weaker than the CNB expected, household consumption remains resilient and the main engine of the economy. Next year's draft budget also provides another boost to public sector wages and pensions. Meanwhile, domestic energy suppliers are announcing price increases for the coming months, with most repricing likely in January, probably the central bank's key concern. While the CNB currently projects inflation at 3.0-3.5%, our economists expect it to exceed 4%.

Czech market pricing remains hawkish, although expected tightening has eased in recent weeks from 125bp to around 100bp. We expect the CNB's tone to become more hawkish in the coming months, supporting a wider interest rate differential. EUR/CZK is currently driven mainly by rates, while other CEE currencies remain more exposed to global risk sentiment. The recent sharp fall in euro rates should provide further support, leaving the koruna well-placed to outperform its regional peers. We believe EUR/CZK has already peaked at 24.470 and expect it to move lower, with today's inflation release a potential initial catalyst.

Frantisek Taborsky

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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

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

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