FI and FX Daily Brief

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FI and FX Daily. The pressure is easing on France

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Summary

The spread between France and peers tightened yesterday and the French curve steepened from the front end although the 10Y spread to Germany is still at a very elevated level. Focus is likely to move to the 3Y auction tonight from the US Treasury. The outright level of close to 5% is looking attractive despite higher-than-expected ISM service prices released yesterday. Hence, the long end of the Treasury curve remains under pressure and there will be focus on both 10Y and 30Y Treasury auctions tomorrow and Thursday.

The easing pressure on France was also supportive for the EUR versus the dollar, where EURUSD stabilised above the 1.12-level. The JPY was also stable against the dollar. Brent declined and is testing the USD 100-level.

Majors FI

The spread between France and peers tightened yesterday and the French curve steepened from the front end although the 10Y spread to Germany is still at a very elevated level. Today, LePen's party is expected to present their budget for 2027 and thus we get more clarity on the fiscal outlook and the possibility of a deal on the budget. We expect that there will be a budget and spreads will slowly grind tighter - see more in our short presentation on France and the possibilities for France, EU, ECB and ESM in the current set-up as well as the spill-over effect to other EGBs, which differs across countries, the French investor base and a short explanation of the TPI and OMT and why this will be activated as France has market access. see https://research.danskebank.com/research/article/997dfc68-dbc9-40fd-bb63-17a6f63116ee/EN

There was also a decline in the German ASW-spread, where the Schatz ASW-spread declined some 3-4bp, while the Bund spread declined 2bp. The German Debt Office will sell EUR 6bn in the new Schatz - BKO 3% 12/28. It will be interesting to see the demand given the current risk sentiment, where the Schatz ASW-spread widened on the back of the French political turmoil and if it will lead to more demand at the auction.

Spain is holding a snap election in November after the PM Sanchez came under significant pressure due to the housing market crisis, where the housing costs has risen significantly. The election will take place on November 29. The election is not expected to have much market impact as the election will focus on housing costs as well as immigration.

The US Treasury will sell USD 58bn in the 3Y segment, which will be followed by a 10Y auction on Wednesday and the 30Y auction Thursday. It will be interesting to see the demand for the 3Y benchmark given the recent rise in rates, where the 3Y benchmark is close to 5%. The long-end of the Treasury curve is under pressure after higher-than-expected ISM services prices.

The Debt Office at Norges Bank announced the size and bonds that will be sold at auction on Wednesday. The Debt Office will tap in the 2Y and the new 20Y benchmark. We expect to see solid demand especially for the 20Y NGB despite the solid tightening of the ASW-spread from MS+9bp at the syndication to currently MS-3bp.

Majors FX

Broad EUR opened sharply lower after the weekend against all G10 currencies, but the initial weakness eased through yesterday as the OAT-Bund spread tightened modestly. USD/JPY rose modestly after reports that Japan's Government Pension Investment Fund (GPIF) had not considered changing its allocation in its most recent meeting, pushing back on the earlier speculation about tilting the allocation more towards domestic debt securities. BRL had its largest daily gain against EUR since 2018 after Flávio Bolsonaro,

who is expected to push for fiscal consolidation, came ahead on the first round of Brazilian presidential elections.

EUR/USD ended Monday back around 1.1220 after temporarily reaching below 1.1170 for the first time since May 2025. EUR/USD cross-currency basis tightened slightly, retreating part of the widening seen towards the end of last week. The FX forward curve still steepened modestly driven by relative rates, as US ISM Services index showed the prices index rising to 74.0 (from 72.6) - the highest level since 2022.

Energy prices declined on a broad basis yesterday. Brent crude price broke back below USD100/barrel and European natural gas price fell 3-4%. Diesel crack spreads have also continued to ease down from their recent highs even though news reports from the Middle East remain unclear, to say the least. Yesterday AFP first reported that oil flows via Saudi Arabia's east-west pipeline had again been disrupted by an attack, but Bloomberg's sources corrected just minutes later that the pipeline was operating normally. Easing energy prices and stabilization of fiscal stress in OAT markets could offer short-term relief for EUR/USD over coming days, but in the 3-12M horizon, we think the structural trend remains downwards. The cross hit our 12M target of 1.12 more than 7 months ahead of schedule, and we discuss the next steps forward in today's Reading the Markets USD, 6 October.

Scandies

For SEK, the story was largely one of external drivers. Political uncertainty in France and Spain continued to weigh on the euro, helping push EUR/SEK lower. Declining front-end euro rates narrowed the rate differential versus Sweden, adding further downside pressure to the cross. USD/SEK, meanwhile, was broadly unchanged, with SEK largely moving in line with EUR against the dollar rather than reacting to any domestic developments.

The NOK has strengthened broadly today, most notably against the EUR but also marginally versus most other G10 currencies. There does not appear to be one clear domestic catalyst behind the move. Instead, NOK strength likely reflects a combination of broader EUR weakness, driven by renewed political and fiscal concerns in the euro area, and a modestly supportive rates backdrop as front-end EUR rates have moved lower. Domestic factors may also have helped at the margin, with September house prices coming in slightly above Norges Bank's forecast and signs of continued investor demand for Norwegian government debt. Overall, the move looks more like a continuation of NOK's strong 2026 performance than a reaction to a single new trigger.

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 at 5.20% in 12M

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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