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FX Insights

Global Markets Research
5 October 2026

Foreign Exchange - Global

EUR: Thoughts on the sell-off

Recent weakness not excessive in a relative sense

- Short EUR positioning has increased but is not yet “extreme” relative to the recent past; EUR depreciation has been largely in line with spreads and ECB pricing.
- Market participants are questioning whether the ECB will need to activate its Transmission Protection Instrument; recent moves do not support this conclusively, though ultimately any action will be politically, not just financially, driven.
- The longer-term flow backdrop has been positive, but this does not prohibit further short-term selling, and the risk is that inflows start to reverse more materially. Japanese investors hold plenty of OATs but had already been reducing their exposure.

Research Analysts

Global FX Strategy

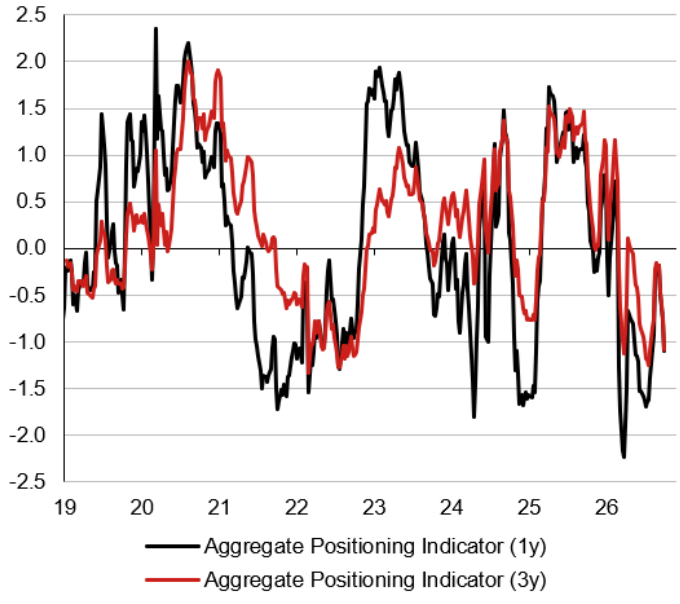
Dominic Bunning - NIplc
dominic.bunning@nomura.com
+44 (0) 20 7102 4063

Yusuke Miyairi, CFA - NIplc
yusuke.miyairi@nomura.com
+44 (0) 20 7102 4145

Positioning and price action – turning short but in line with other markets

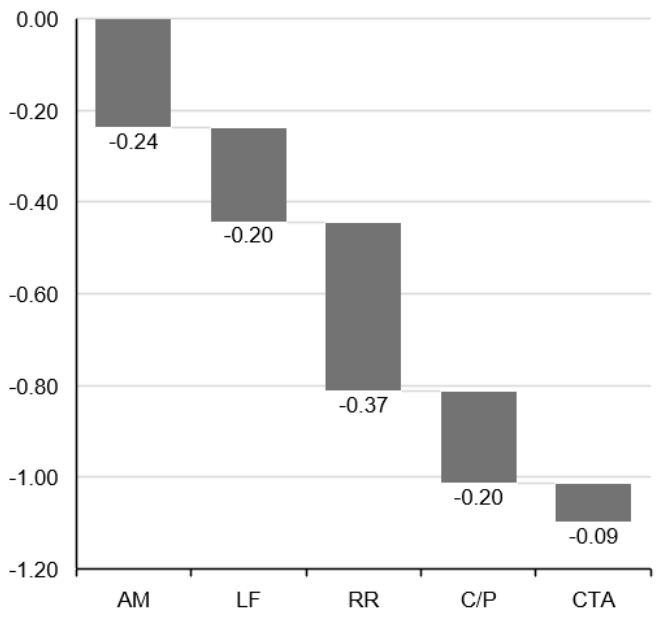
Our *aggregate positioning indicator* has shown a swift increase in net short EUR positions in recent weeks. However, relative to the recent past, these positions do not look particularly extreme. Using both a 1y or 3y look-back window, the net short is around 1 standard deviation overall (*Fig. 1*). The 1y measure reached over 2sd in late-March 2026, when EUR/USD fell from 1.18 to 1.14 after the outbreak of the US-Iran war. Relative to these windows, positioning is consistently short across all subcomponents, but not extreme in any individual category in our view (*Fig. 2*). As such, **we do not think positioning in and of itself has got to a point that would limit EUR weakness yet.**

Fig. 1: FX positioning has shifted but change is not as extreme as earlier in 2026



Source: Bloomberg, Nomura

Fig. 2: Individual positioning indicators point to consistency across short EUR positions



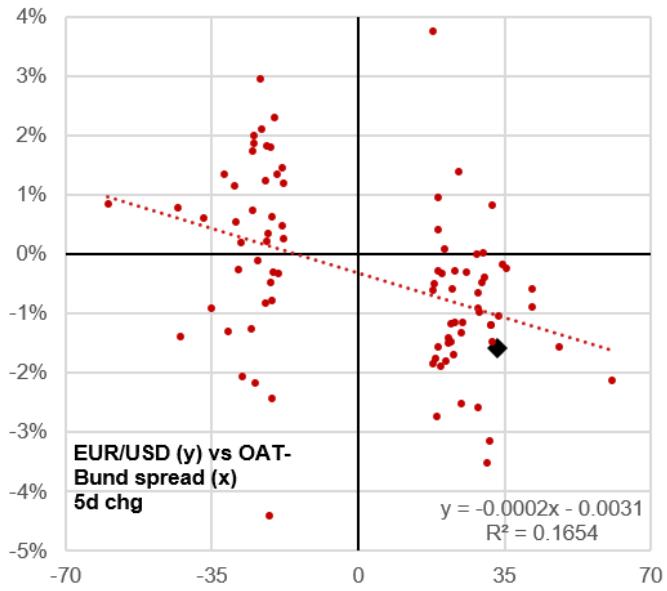
Source: Bloomberg, Nomura

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EUR depreciation has also been in line with movements in other markets. The widening in the French OAT spread over German bunds (just over 30bp in 5d at the time of writing) and the c1.5% move lower in EUR/USD over the same time period appears reasonably well aligned with historically large moves in the spread (*Fig. 3*).

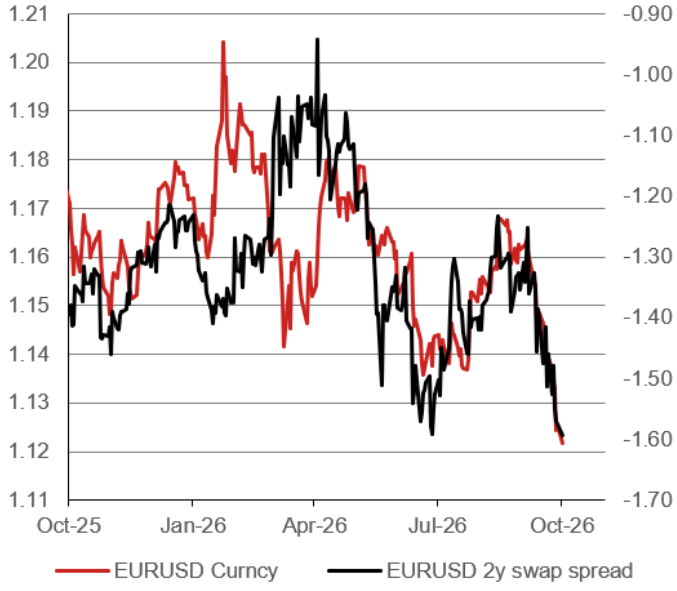
EUR/USD has also fallen in a way that is consistent with front-end rate repricing (*Fig. 4*). The tightening of financial conditions due to spread widening is causing some dovish push back from ECB members such as Philip Lane (source: Bloomberg) which has seen pricing for October's ECB meeting move to just 3bp of hikes, and December's meeting to price 22bp of hikes cumulatively, down from 31bp just a week ago.

Fig. 3: EUR/USD movements have been consistent with past episodes of significant spread widening



Data filtered for spread moves of 3sd or greater, i.e. 17.7bp
Source: Bloomberg, Nomura

Fig. 4: EUR/USD downside has also aligned with the repricing of ECB hiking expectations



Source: Bloomberg, Nomura

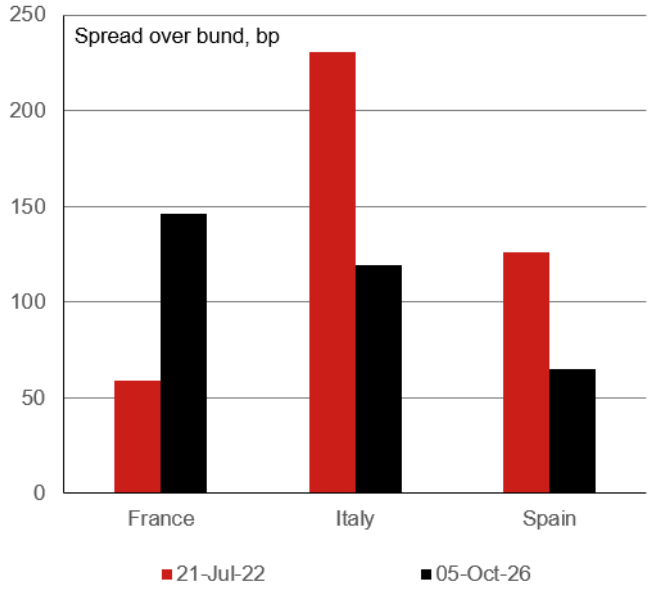
The other ECB response that is being commented on in markets is whether the "Transmission Protection Instrument", first announced in July 2022, could be used to curb spread widening. Just for reference, French spreads are currently a long way below Italian spreads were ahead of the TPI announcement (*Fig. 5*), but the speed of the move has been much faster, whether we consider the last 1m or 3m (*Fig. 6*). The TPI is designed to counter "a deterioration in financing conditions not warranted by country-specific fundamentals" (ECB). It is hard to argue that has been the case now, as France's finances are clearly worrisome, but the speed of the sell-off might warrant some consideration. There are a number of eligibility criteria, but they appear to be broad and vague enough in our view that, should the political will be there, France could qualify for support, though we still think it is unlikely for now.

If the TPI were to be initiated we would expect a knee-jerk rally in EUR as near-term bond market contagion risks would be contained. Outside of that, however, such a move could be deemed to show a degree of financial repression in the euro area, which would ultimately be challenging for EUR. In our view, the best-case scenario for the currency from here is that there are clear signs in the coming weeks that the French government can get its budget passed (key votes on 20 October, 27 October and 17 November). If this materialises, it could curb some credibility and sustainability fears for OATs.

For other economies, such as Spain, we are much less concerned. The decision of Spain's Prime Minister Sanchez to hold an early election on 29 November is unlikely to hurt the path of Spain's finances. Not passing a new budget since 2023 has not harmed Spanish fiscal dynamics, as growth remains firm, while the opposition PP (centre-right), which are currently leading in the polls, are more likely to lean towards further fiscal consolidation than the current ruling PSOE party, even if they need support from the "far-right" VOX party to pass legislation.

Fig. 5: French 10y OAT spread over bund is much lower than Italy's when the TPI was announced

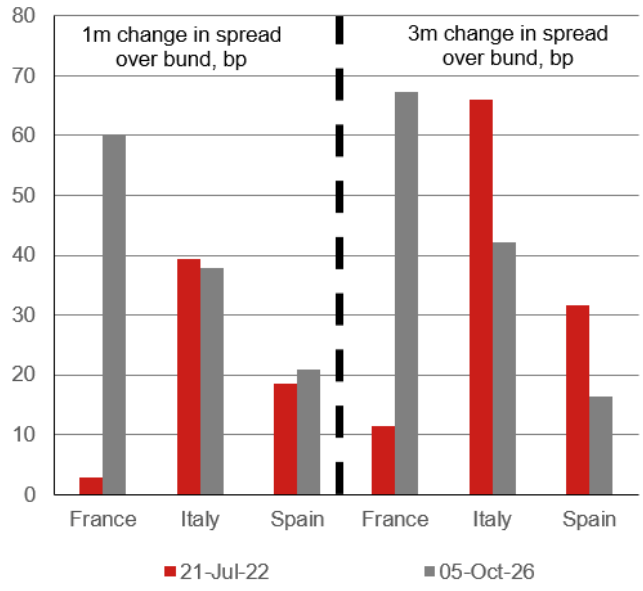
10y spread over bund



Source: Bloomberg, Nomura

Fig. 6: But the speed of spread widening has been much faster this time around

10y spread of bund



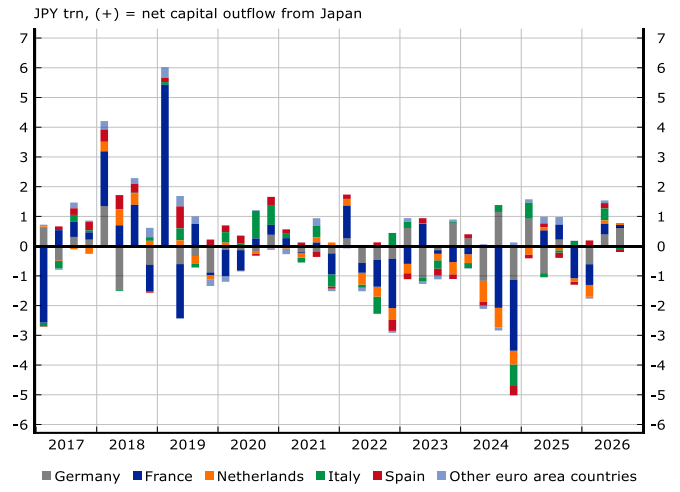
Source: Bloomberg, Nomura

Japanese exposure to France is high, but recent flows have been modest

Japanese investors' capital flows into euro area bonds have long been recognized as significant by the market, owing to the size of overall holdings. As of end-2025, they held approximately JPY23trn (EUR128bn) of French long-term debt, making it their largest single-country exposure within the euro area. However, flows have been mixed over the past few years and have been more tilted towards sales than further buying recently (*Fig. 7* and *Fig. 8*). Japanese investors were net buyers of euro area long-term debt from May to July, though they had been net sellers in the months prior.

Fig. 7: Capital flows from Japan to euro area bonds have been mixed, generally selling French debt in recent years

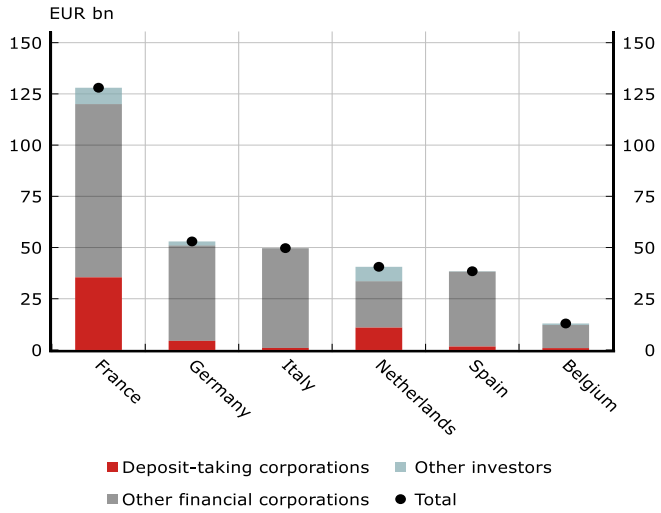
Japanese investors' net euro area long-term debt investment



Note: Monthly data converted to quarterly data.
Source: Macrobond, MOF, Nomura

Fig. 8: Japanese investors' largest single-country exposure within the euro area is in French long-term debt

Japanese investors' European long-term debt exposure by type of investor and by country



Note: Data as of end-2025.
Source: Macrobond, BOJ, Nomura

Bloomberg reported on 2 October that a portfolio manager in a Japanese asset management company divested all of his French bond holdings from his portfolio

managers' funds. The size appears to be small, considering the AUM of the active foreign bond investment fund in the firm is JPY7.7bn (cEUR43m), of which 10% is French bonds. The report also noted that OAT sales would mostly be switched to bunds as opposed to leaving the euro area. Looking at the aggregated data for Japanese investment trusts' publicly offered euro area bond funds, the size of French bond investment funds stands at JPY445.1bn (EUR2.4bn). Therefore, considering the news thus far, Japanese investors have not become major net sellers of French bonds with size yet.

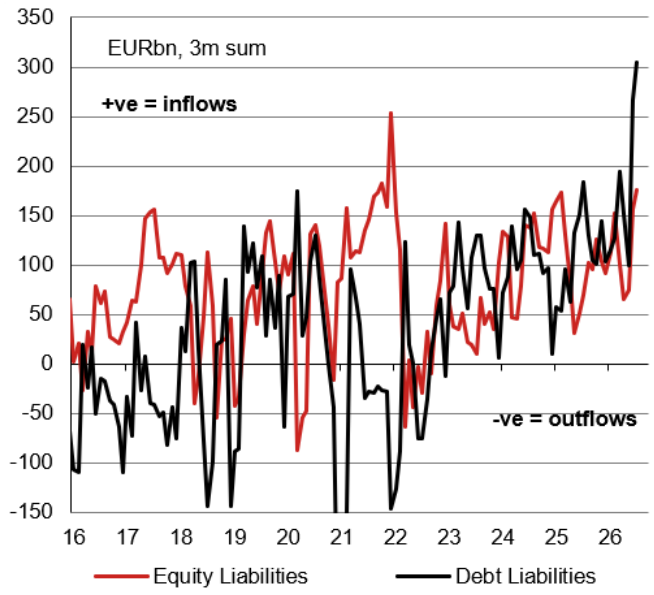
So *while the headline risks have been negative*, these sorts of flows are unlikely to have had a major direct impact on EUR, in our view.

Negative sentiment comes against a very supportive medium-term flow backdrop

In addition to Japan flow data, we track broader BoP flows into the euro area. These are lagged (latest data for July), but they show a clear positive trend for the region in recent years. In particular, inflows into debt markets reached record highs over the summer (*Fig. 9*). Of course, there is downside risk after such strong inflows that they could reverse sharply. But in our view, investors buying euro area debt even a few months ago would be well versed in regional fiscal risks, which have not actually deteriorated that much in recent weeks, other than in terms of price action.

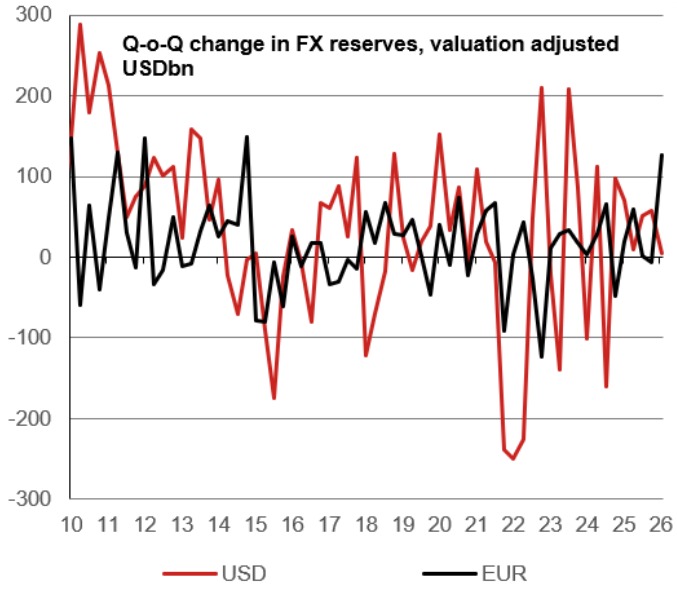
Recently released reserve manager data – albeit for Q2 2026 – showed the strongest demand for EUR in over a decade, with around a USD125bn equivalent increase in EUR-denominated FX reserves after valuation effects are taken into account. Again, while these data are lagged and these investors do not tend to lead market moves, it is worth noting that some structural supports for EUR do appear to remain intact.

Fig. 9: Portfolio flow data are lagged to July but showed strong momentum in the summer



Source: Bloomberg, Nomura

Fig. 10: Reserve demand for EUR in Q2 was the strongest in over a decade



Source: Bloomberg, Nomura

Appendix A-1

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