Article | 12 October 2026

FX TALKING

G10 FX Talking: Independent euro weakness in play

At a time when US economic growth appears solid and the Fed is intent on tightening policy, French budget unrest has only served to soften an already weak EUR/USD. We now think it can stay pressured at the lower end of a 1.10-15 range over the next three to six months. The biggest threat to the dollar probably comes from any new White House policy post-midterms



EUR/USD looks set to stay pressured in a new 1.10-15 range

Main ING G10 FX Forecasts

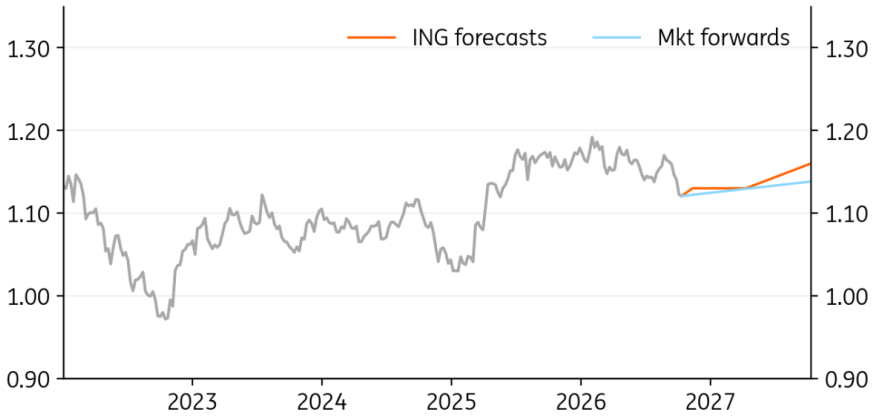
	EUR/USD		USD/JPY		GBP/USD	
1M	1.13	↑	158	→	1.35	↑
3M	1.13	↑	158	↑	1.35	↑
6M	1.13	→	158	↑	1.35	↑
12M	1.16	↑	156	↑	1.35	↑

	EUR/GBP	EUR/CHF	USD/CAD
1M	0.84 ↓	0.93 →	1.43 ↑
3M	0.84 ↓	0.93 ↑	1.42 →
6M	0.84 ↓	0.94 ↑	1.42 ↑
12M	0.86 →	0.95 ↑	1.39 ↓

EUR/USD: French debt concern dominates

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.1203	Neutral	1.13	1.13	1.13	1.16

- A hawkish Federal Reserve hike in September and a continued rise in US yields are pressure testing the global financial system. The most recent asset class to give way is French government debt, where politicians lack the urgency to tackle budget deficits. We see this more akin to the 2018 Italian debt crisis – again, driven by elections – rather than Greece's selective default in 2012.
- Expect more volatility in the OAT-Bund spread into year-end, but passage of modest fiscal consolidation should prevent a much heavier sell-off in French debt and the euro.
- EUR/USD is set to stay offered in a 1.10-1.15 range. The main risk to the upside stems from uncertain White House policy post the November midterm elections.

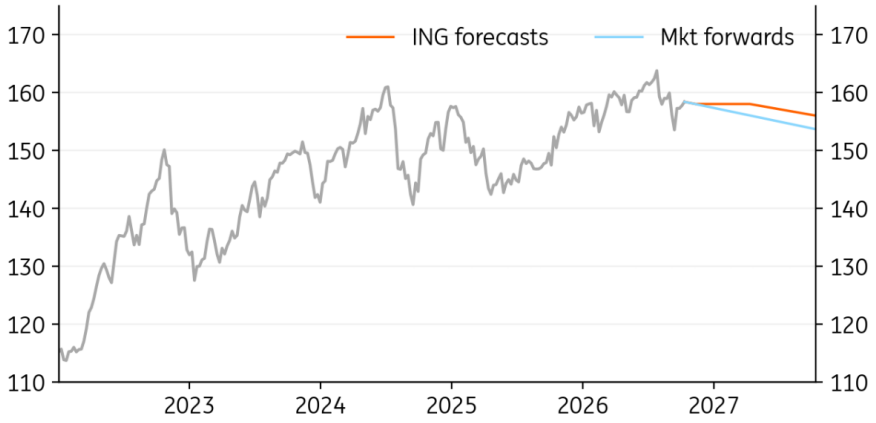


Source: Refinitiv, ING Forecasts

USD/JPY: Yen re-rating enters a pause

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	158.46	Neutral	158.00	158.00	158.00	156.00

- September proved a wild month for USD/JPY, where runaway yen optimism briefly saw 153, before a hawkish Fed and a dovish Bank of Japan hike sent it back to 158. What we've learned this year is that Japan and the US are uncomfortable with the pair above 160. But a move to 150 requires less hawkishness from the Fed and a much higher policy rate in Japan. That may not emerge until 2Q27.
- Domestically, growth is picking up in Japan, but we doubt the BoJ is ready to accelerate its tightening cycle. We think the next hike (to 1.50%) comes in January, or slightly earlier on 18 December.
- 30 October is a big date for USD/JPY. No BoJ hike and no news of GPIF fund re-allocation to Japan could weigh heavily on the yen.

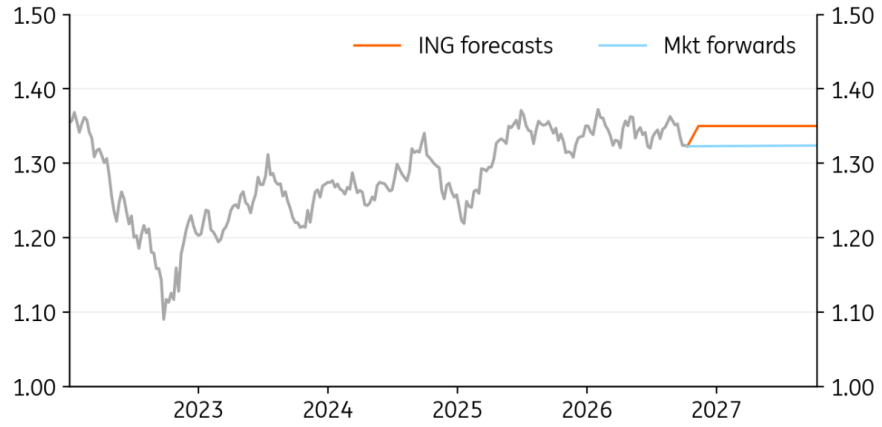


Source: Refinitiv, ING Forecasts

GBP/USD: BoE looking to pull the trigger

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3247	Mildly Bullish ↗	1.35	1.35	1.35	1.35

- With energy prices staying higher for longer, it increasingly looks like the Bank of England might hike at its 5 November meeting. If it does, we suspect another hike will be coming in February – taking the policy rate to 4.25%. Central to the BoE is inflation approaching 4%, a level where BoE research has found that second-round inflation effects become greater.
- The Bank delivering on expectations of a rate hike should be a sterling positive – cementing its status as a G10 high-yielder.
- 28 October is a UK event risk in the form of Prime Minister Andy Burnham's first budget. Cost of living support measures should be announced, but we expect them to be funded, avoiding a Gilt market sell-off.

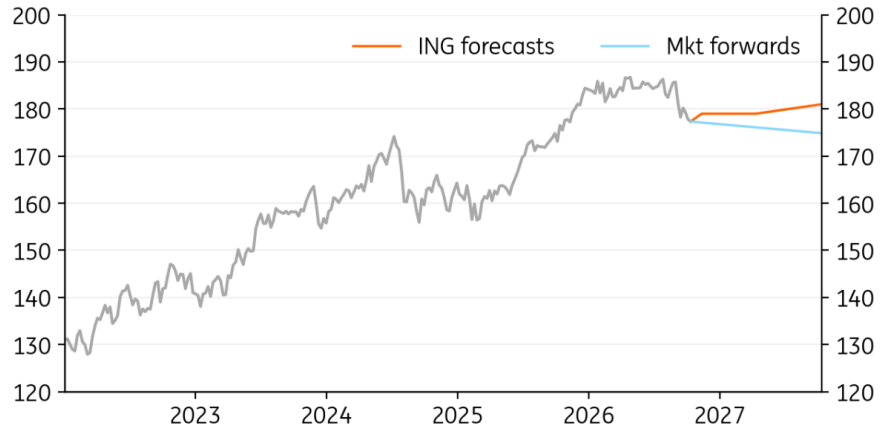


Source: Refinitiv, ING Forecasts

EUR/JPY: Multi-year correction in play

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	177.5300	Neutral	179.00	179.00	179.00	181.00

- Independent euro weakness coming through on the back of the French debt crisis is helping to solidify this correction in EUR/JPY. Having rallied over 60% in six years, EUR/JPY should now enter a more consolidative environment – perhaps in a 175-182 range.
- From the euro side, downside risks exist from the European Central Bank's reaction function. Should the ECB feel the need to curtail its tightening cycle (we look for one last hike to 2.75% in December), slow its quantitative tightening scheme or even buy bonds again, EUR/JPY could see a sizeable break lower.
- In Japan, any faster Bank of Japan tightening or the GPIF announcing an increase to its 50% weighting for domestic assets would help the yen.

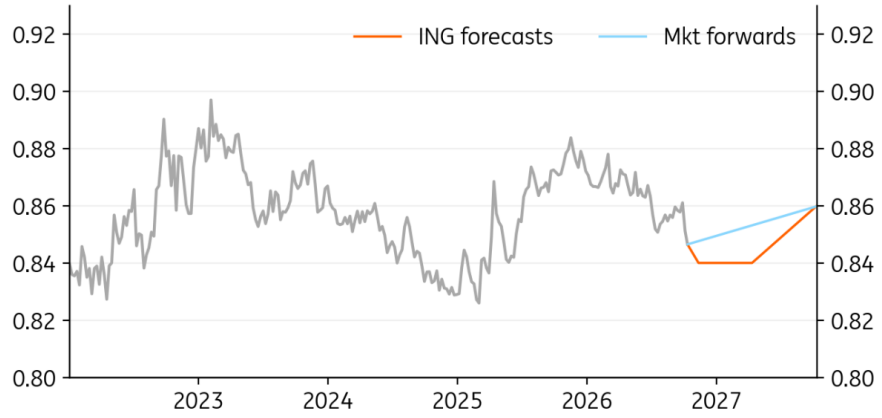


Source: Refinitiv, ING Forecasts

EUR/GBP: BoE and closer Europe ties to help GBP?

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8458	Mildly Bearish ↘	0.84	0.84	0.84	0.86

- Independent euro weakness has dragged EUR/GBP back to the lows of the year at 0.8450/55. Were French risk to escalate, e.g., OAT-Bund spreads to widen to 250bp and the ECB forced to take emergency measures, EUR/GBP could trade all the way to 0.82.
- That is not our call. Instead, a more contained French crisis and a more hawkish BoE than initially expected should keep EUR/GBP in a 0.84-0.85 range for several more months – with a downside skew.
- One of the sterling bullish wild cards is Europe. PM Burnham wants to get closer to Europe and does not rule out a referendum on an EU return. An EU-UK summit on 20 November may generate headlines that are typically welcomed by sterling.

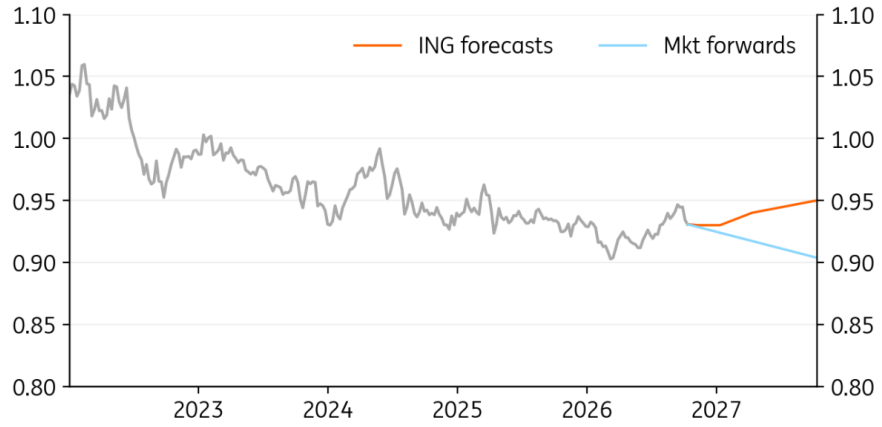


Source: Refinitiv, ING Forecasts

EUR/CHF: French debt crisis sees CHF win new friends

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9318	Neutral	0.93	0.93	0.94	0.95

- It looks like EUR/CHF has put in an important top at 0.95 in September. Recall that franc weakness was being driven by ever higher global interest rates (Swiss rate hikes would lag) and also low volatility favouring franc-funded carry trades. The French debt crisis has been enough to reverse both those factors. On a view that the French risk is unresolved this year, expect EUR/CHF to bounce around in a 0.92-0.94 range.
- The Swiss National Bank is showing no signs of turning more hawkish. CPI is forecast at 0.8% in both 2027 and 2028.
- Were French risk to become extreme, expect the SNB to buy EUR/CHF again in the 0.90/91 region – though in small amounts.



Source: Refinitiv, ING Forecasts

EUR/SEK: Relief rally in cheap SEK

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.2000	Mildly Bearish ↘	11.15	11.15	11.00	10.75

- EUR/SEK has retreated from its highs as French risk hit the euro. While the krona remains a less attractive expression of eurozone fiscal risk than the CHF or GBP, it was also notably cheap versus short-term fair value at the end of last month.
- The combination of sticky oil prices and a fragile bond market suggests that the SEK rebound may struggle to extend in the near term. A return to 11.00 now hinges on some easing of Middle East tensions and/or further fiscal risks weighing on EUR.
- We expect the Riksbank to hike 25bp in November (now 18bp priced in), and to maintain a hawkish bias. Policymakers likely hope that will help SEK, but external factors remain too dominant. We retain a bearish EUR/SEK profile, which relies heavily on some improvement in geopolitical conditions and, to some extent, in French risk weighing on the euro for longer.

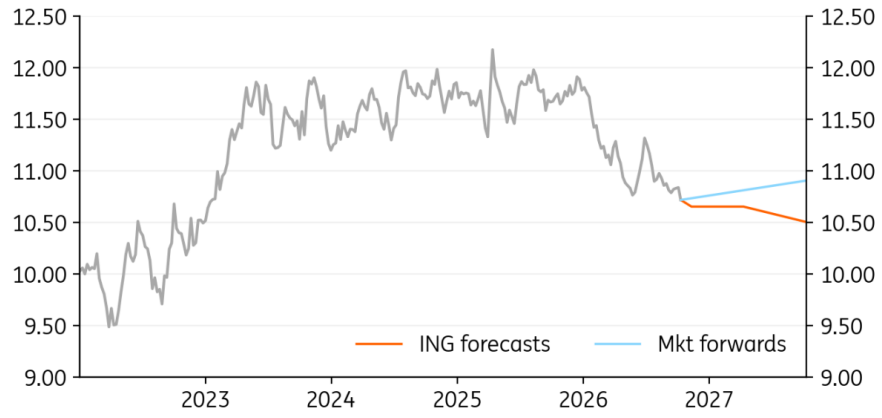


Source: Refinitiv, ING Forecasts

EUR/NOK: Fundamentals shielding the krone

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	10.7300	Mildly Bearish ↘	10.65	10.65	10.65	10.50

- Our baseline view is that Norges Bank won't hike rates again in 2026. But risks are clearly skewed towards another 25bp increase in December or in 1Q27.
- Inflation remains the key policy driver. September inflation was softer than consensus, with the headline rate rising to 3.4% and underlying CPI flattening at 3.0%. These are levels that should avert a November hike, but Norges Bank will require some improvement in coming months to remain on hold.
- The krone had a very strong 3Q, despite correcting in September. Fundamentals remain supportive, with risks mostly linked to a rapid de-escalation in the Gulf and sharp oil price decline. Neither appears imminent at this stage. EUR/NOK is incidentally being dampened by the soft euro, which is offsetting the poorer liquidity environment.

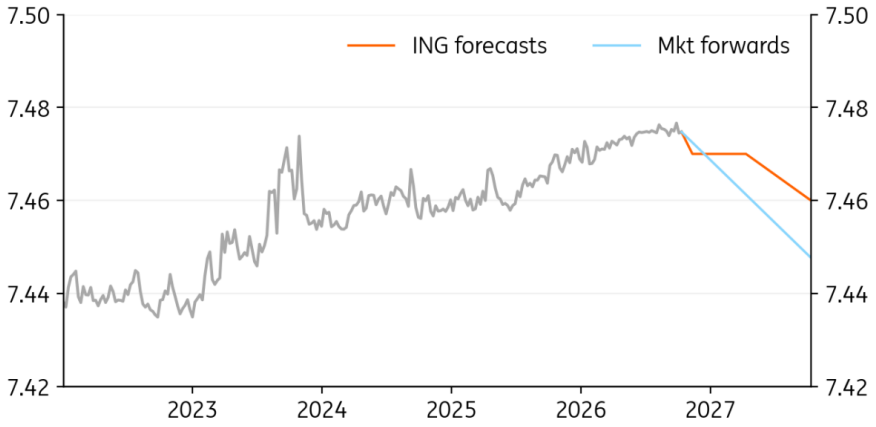


Source: Refinitiv, ING Forecasts

EUR/DKK: No intervention in September

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4744	Neutral	7.47	7.47	7.47	7.46

- The Danish central bank didn't intervene in FX in September, reinforcing the message that spot levels around 0.2% above the EUR/DKK 7.460 peg are comfortably tolerated.
- EUR/DKK has come under some modest pressure since the start of October as French risk weighed on the euro. Even so, the rate differential continues to support the pair, and it would take a much more meaningful deterioration in the eurozone debt story to materially affect spot.
- We expect one last 25bp hike in Denmark in December, in line with our ECB call. We feel the rate gap will ultimately have to be narrowed, although that may now be a story for 2027.

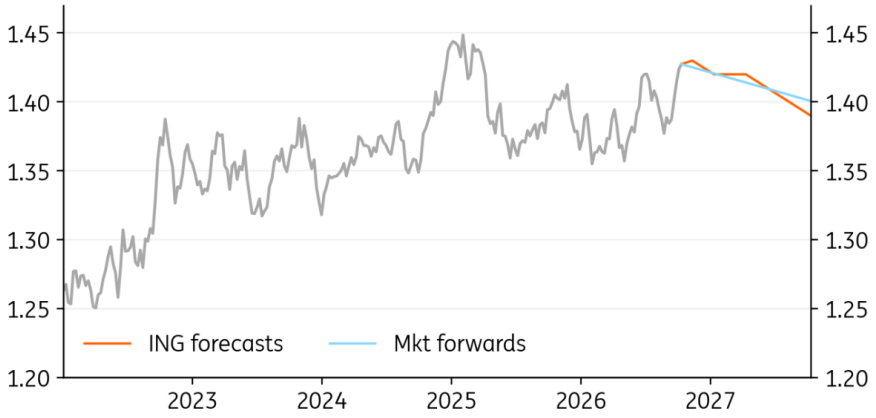


Source: Refinitiv, ING Forecasts

USD/CAD: Trade tensions an underappreciated risk

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.4259	Neutral	1.43	1.42	1.42	1.39

- We now think the Bank of Canada will hike rates in December. Markets have been pricing it in for some time now, and it won't be enough to drive USD/CAD lower by itself. October looks premature considering the struggling jobs market, with September posting further jobs losses alongside a tick higher in unemployment to 6.5%.
- A combination of dovish repricing in Fed rate expectations and improved global financial/risk conditions remain necessary to take the pair back towards 1.40. We doubt this will happen already before year-end.
- US-Canada trade tensions are not playing a major role in CAD trading, but they remain a non-negligible downside risk, either directly or indirectly via a softer economic outlook and less room for rate increases.

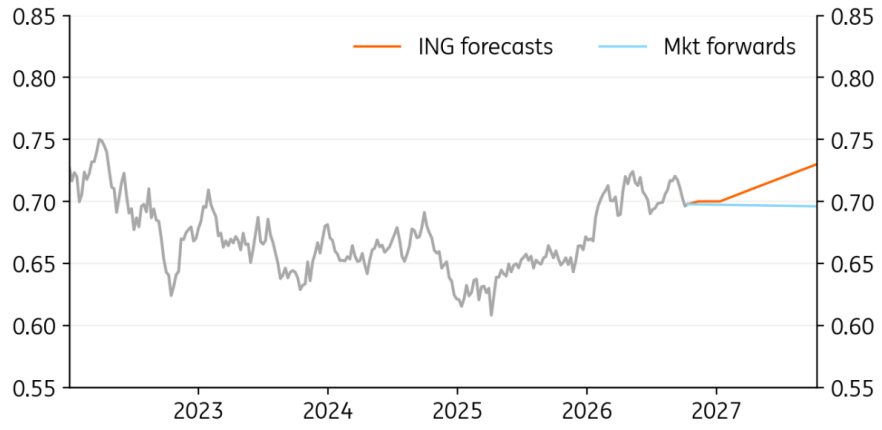


Source: Refinitiv, ING Forecasts

AUD/USD: AUD more resilient than others

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6977	Mildly Bullish ↗	0.70	0.70	0.71	0.73

- AUD/USD has suffered from the September USD rally but is not a standout loser in G10. It's a signal that the latest hike by the Reserve Bank of Australia is offering the Aussie dollar some protection in the crosses.
- We haven't pencilled in any additional RBA hikes as we expect some gradual improvement in the inflation picture. But policymakers have shown little hesitation to act, and markets are understandably still pricing in the risk (11bp) of a move by December.
- The sharp worsening in global financial conditions calls for a revision lower in our AUD/USD profile. We now see 0.70-0.71 as a more realistic target for year-end. We still see strong potential for AUD gains in 2027, as global inflation concerns may finally start to ease.

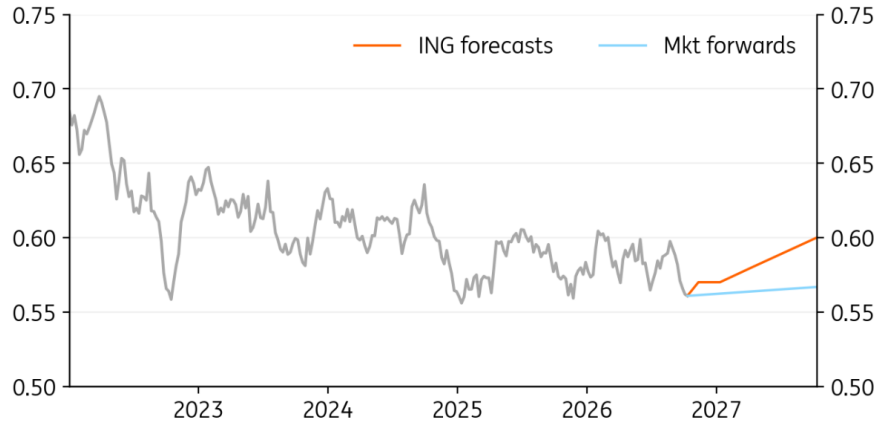


Source: Refinitiv, ING Forecasts

NZD/USD: Looking cheap

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5603	Mildly Bullish ↗	0.57	0.57	0.58	0.60

- The Kiwi dollar has been a big underperformer as of late. External conditions are hitting hard, and the recent dovish surprise by the Reserve Bank of New Zealand in September has left the currency less protected.
- Still, the NZD/USD drop looks too stretched relative to its short-term fair value. NZD has been the most undervalued G10 currency for the past couple of weeks, and we think further drops will be harder to sustain unless fundamentals shift.
- We also think any recovery in global risk sentiment can see NZD stand out on the positive side. The RBNZ should hike in December, but we cannot exclude a move in October, when a hawkish re-tuning of the policy message looks likely anyway. We have revised our NZD/USD lower but still see upside potential next year.



Source: Refinitiv, ING Forecasts

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