Article | 15 October 2026

FX

FX Daily: Markets preview the AI correction

The market reaction to the hot September US CPI did not last long. Within hours, the spike higher in short-dated US yields and the dollar reversed as the market switched its attention to the sell-off in the debt markets of some high-profile AI companies. Outperforming has been the Swiss franc, serving as a preview for what happens when AI goes wrong



Swiss franc outperformance offers a glimpse of an AI-driven market correction

USD: AI funding in focus

The DXY dollar index briefly touched a new high for the year yesterday, before reversing quite sharply in Asia overnight. The dollar rally followed some hot US CPI data, which questioned whether the Fed, after all, would have to deliver a back-to-back hike in October. However, within hours, US short-dated yields and the dollar had more than reversed their gains. Driving the move seemed to be growing concerns over the debt load in the AI sector. One company in focus, Coreweave, which provides access to GPUs and data centres for AI cloud computing, has seen its debt sell off hard. It is a high-yield issuer, but its 2032 bonds trading at 78 cents on the dollar are raising some eyebrows and questioning whether the buy-side has limitless appetite to fund the AI build-out.

It looks premature to conclude that AI funding will hit a wall, but it is interesting to see better performance at the long end of the US Treasury market. This tentatively suggests yields have hit levels where value is being seen.

For the FX market, overnight price action provides a preview of how currencies will perform during a big AI correction. Rather than rallying as a safe haven, the dollar weakens as the Fed cycle gets repriced dovishly. Heavily hit are those currencies most linked to AI chip shipments, such as the Taiwanese dollar and the Korean won. The biggest beneficiary again looks to be the Swiss franc, where lower core interest rates and narrower rate differentials between Switzerland and the rest of the world allow the franc to recover.

Expect investors to keep an eye on the debt of the big AI issuers today, and any further sell-off could weigh on the dollar. But today's macro inputs should be mildly dollar supportive, where a decent September retail sales figure and firm PPI data will keep the market guessing how quickly the Fed tightens again.

We think the dollar has probably rallied far enough for the time being – more than 4% in a month is a big move – and can probably enter a more consolidative/corrective phase now. We imagine dollar sellers will emerge should DXY return to the 102.40/50 area. Support is at 101.75/85.

Chris Turner

EUR: Some consolidation may be due

EUR/USD touched the 1.1100/1120 target area, which we had been highlighting in recent weeks, but it has quickly reversed. A correction in the AI forever thesis is probably the biggest chance of EUR/USD finding support right now, given that the French budget story looks set to endure. But let's see whether this AI correction story has legs and is enough to drag EUR/USD back to the 1.1300/1350 area – purely from the dollar side.

Chris Turner

PLN: Delayed NBP tightening leaves the zloty vulnerable

Final Polish inflation was revised slightly higher to 4.1% from the 4.0% September flash estimate. Our core inflation forecast is unchanged at 3.1%, down from 3.3%, with today's release expected to confirm the figure. Since the October National Bank of Poland meeting, nearly all Monetary Policy Committee members have spoken, offering mixed signals. Most have sounded somewhat more hawkish than Governor Adam Glapinski, but the majority see December – not November – as the earliest for discussing a rate hike.

All agree that the new forecast and pace of disinflation next year will be decisive. Detailed interviews have also focused on government measures to cap household fuel prices. Approved

only through year-end, these measures reduce headline inflation by 0.6-0.7pp. We can assume these measures can be extended into Q1 if needed, with the Ministry of Finance indicating that a decision will come in December. This should allow the NBP to delay tightening further. Our economists still expect hikes to begin in Q1 next year, with 50bp of tightening in total.

Yesterday's stronger-than-expected US core CPI halted gains in CEE currencies and pushed sentiment back into risk-off mode. Our bearish CEE FX view remains unchanged: a firmer US dollar and record-high gas prices will make it difficult for regional currencies to sustain gains. The PLN looks particularly vulnerable given the NBP's dovish stance relative to market pricing. We therefore continue to expect EUR/PLN to return to the 4.380-4.400 range.

Frantisek Taborsky

RON: Political breakthrough supports stability, but upside is limited

Romania appears closer to ending five months of political deadlock after the Social Democrats agreed to join premier-designate Luca Niculescu's cabinet with 11 ministers. The Liberals and UDMR will not enter government but have pledged parliamentary support for six months, likely giving Niculescu the majority needed for approval. The cabinet is also expected to include technocrats in finance, energy and foreign affairs.

This is Niculescu's fourth attempt by President Nicușor Dan to install a prime minister since May, after the previous coalition collapsed and previous nominees failed. A government should reduce near-term pressure on the leu and lower the risk of Romania losing its investment-grade rating. However, the economic backdrop remains difficult after last year's fiscal tightening pushed activity into prolonged stagnation. Failure to secure parliament's backing could force an early election, which the president has sought to avoid. If approved, Niculescu's immediate priorities will be revising the 2026 budget, preparing the 2027 draft and continuing fiscal consolidation. Overall, the political breakthrough is positive for RON, but implementation and the credibility of deficit reduction will remain key.

As previously discussed, we do not expect RON to rally on political headlines, though the new government should help stabilise EUR/RON around 5.340 and limit further upside. Bonds have already seen a solid rally in recent days, with spreads against CEE peers narrowing to record levels. The new government and budget discussions pointing to further consolidation should sustain positive sentiment in the bond market as well, but stretched valuations limit further rallies there.

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