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Market Spotlight

Market Spotlight is our publication
that looks at key market drivers

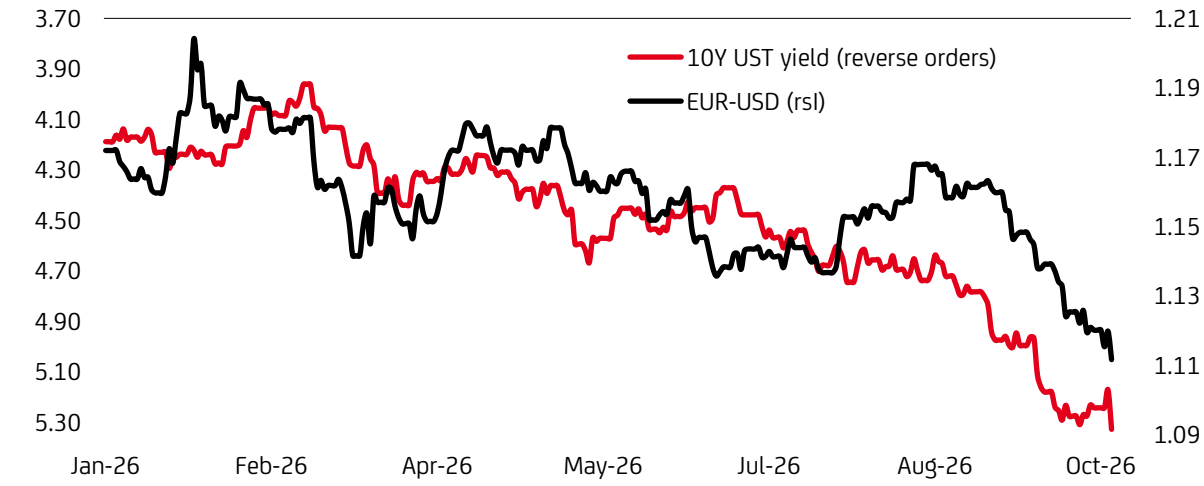
What is driving EUR-USD? US yields alone or spreads?

14 October 2026

Soaring long-term yields in the US have been the main driver behind the ongoing strong USD appreciation since the start of the bond market selloff in early September. The corresponding rise in German yields only provided the EUR with a parachute, limiting its fall to 5% so far. Therefore, retreating US yields, as we expect in our baseline scenario, should support EUR-USD. Still, political tensions across the eurozone will likely interfere with a full-fledged rebound of the common currency.

SOARING UST YIELDS ALONE ARE CURRENTLY THE MAIN DRAG ON EUR-USD

EUR-USD AND 10Y UST YIELD



Source: LSEG, the Investment Institute by UniCredit

THE NOISE ...

Exchange rates are considered one of the most complicated financial instruments to forecast. Political and geopolitical events, economic data releases, fiscal and monetary policies can all impact exchange rates. Moreover, correlations between exchange rates and financial and economic variables are usually extremely unstable and change over time. The behaviour of a currency pair may be determined by a single factor for a significant period. Then, correlation progressively diminishes and may become almost irrelevant, before resuming – potentially even in the opposite direction.

The usual approach to assessing the relationship between a bilateral exchange rate and interest rates is to compare the exchange rate with the interest rate differential between the two countries concerned. But interest rate differentials are a relative measure.

We take a step forward and examine whether the dynamics of interest rates in a country *alone* have good explanatory power regarding a bilateral exchange rate, before considering interest rate differentials. In other words, we evaluate whether interest rates in a country, and more specifically its long-term yields, represent the main driver of a bilateral exchange rate.

... AND THE SIGNAL

The relationship between the USD and US long-term yields is confirmed by the strong correlation between the US dollar index (DXY) and the 10Y UST yield, as shown in our Short View - The USD: between soaring UST yields and buying opportunities, 7 October. The results do not change significantly if US short-term interest rates or other long-term yield maturities, such as 2Y or 30YT yields, are considered.

In this note, we assess whether the rise in the 10Y UST yield alone can explain the EUR-USD decline, even before considering the 10Y Bund vs. UST yield. For this, we have calculated the correlation between EUR-USD and the 10Y UST yield since January. The two series are depicted in our chart. The correlation is calculated in terms of first differences in daily values to eliminate the risk of spurious correlations.

In addition to the clear relationship visible in the chart, the results of our calculation are quite comforting: correlation is over -0.60, suggesting that a rise in the 10Y UST yield tends to be sufficiently EUR-USD negative and vice versa. Hence, we can argue that the rise in the 10Y UST yield has determined the direction and the decline of EUR-USD, while the yield spread between the 10Y Bund and the UST has influenced the speed of the decline.

How UST yields alone can impact EUR-USD has been visible this afternoon after the releases of US CPI data for September. The 10Y UST yield immediately reversed the early decline to 5.1884% and jumped back to a high of 5.3293%. At the same time EUR-USD plunged to a new YTD low of 1.1115. This remains a sharp but not exaggerated drop from a high of 1.1711 in August (when the pair indirectly benefited from the joint BoJ and Fed intervention on USD-JPY). Despite the sharp rise in the 10 UST yield, EUR-USD has only lost around 5%, as the corresponding rise in the 10Y Bund yield has prevented a more intense fall of the common currency

However, our analysis does not imply that German vs. US yield spreads may not play a stronger role in driving EUR-USD in the future. Still, if the soaring 10Y UST yield retreats from its current levels after reaching a twenty-year high of 5.3645% on 7 October and moves towards 5.00%/4.80% (the values prevailing in early September, before the bond market selloff), the EUR-USD decline may take a breather. Note that such a correction in the 10Y UST yield would be in line with our baseline scenario, which includes just one more rate hike by the Fed this year and steady rates in 2027, the same picture New York Fed President John Williams depicted overnight.

However, lingering political tensions across the eurozone and concerns regarding public finances in France may thwart a potential EUR-USD recovery. In early September, the pair traded between 1.15 and 1.16. Re-approaching or even exceeding 1.14 has probably become a difficult task at this point.

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