15 October 2026

FX Strategy

Macro and risk outlooks favour the USD

- **We think three key themes will characterize FX market developments over the next 3-6M: elevated energy prices, the Fed's rate hikes and peak in global manufacturing momentum.**
- **In our view, key macro risks surrounding the baseline outlook are related to further rise in energy prices and another positive real rate shock. We study G10 currencies' sensitivities to these risks to understand how FX exposure can help diversify portfolios for the winter.**
- **Tactically, we remain bullish on USD vis-à-vis AUD, NOK and SEK. Over the medium-term, we also see a good chance of EUR/USD testing 1.10 over the winter period.**

When looking through the French fiscal stress weighing on EUR markets, we see three key market themes ahead for the winter: 1) Energy prices are likely to remain elevated, 2) the Federal Reserve will maintain a tightening bias and consequently, 3) global manufacturing momentum will eventually plateau.

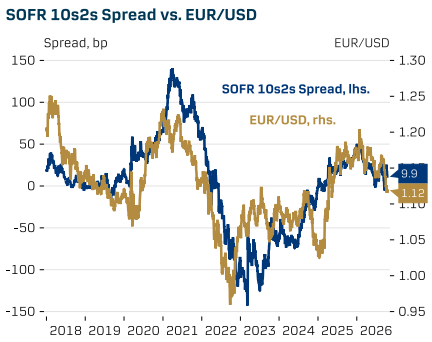
This does not mean we are turning negative on the growth outlook. But as the global economy shifts from acceleration phase towards late-cycle growth, we believe that the relative FX winners will be found from the defensive, rather than cyclical currencies.

In the very near-term, the outlook for EUR-crosses remains highly sensitive to developments in the OAT-Bund spread. This means that if the fiscal concerns ease further, we could well see a temporary rebound in EUR/USD, even though we maintain a bearish view on the cross over the medium term.

While the fiscal concerns have lifted long-end rates across markets, cooling macro momentum has the opposite effect – flatter curves. Financial conditions have already tightened noticeably, which means that central banks might be inclined to take a more cautious stance to tightening, if macro data suddenly shows unexpected cooling. In our view, especially Norway and Australia – both of which have an elevated policy rate level to begin with – are prone to a correction towards lower rates (and a weaker currency as a result).

Finally, we consider the most pressing risks surrounding the baseline market views, and implications for positioning. 1) Despite the equity market jitters, the latest PMI and export data from South Korea and Taiwan shows no signs of cooling of the AI capex boom. This means we might underestimate how far the current cycle can accelerate. Upside growth surprises could force global central banks to tighten financial conditions even more aggressively than we expect. 2) We also cannot rule out an even sharper energy shock if, for example, winter weather turns out to be colder than usual and/or the US restarts military strikes against Iran after the Midterm elections.

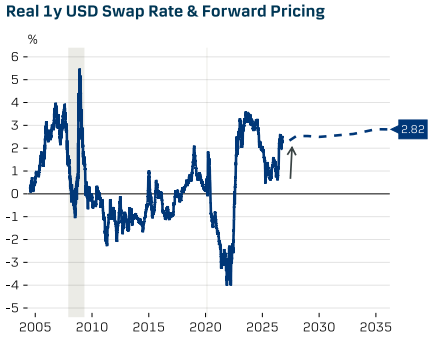
Chart 1: Flatter yield curves would support the USD



Sources: Macrobond, Bloomberg, Danske Bank

Note: Past performance is not a reliable indicator of current or future results.

Chart 2: Markets expect no easing in USD real rates



Sources: Macrobond, Bloomberg, Danske Bank

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USD exposure remains a strong portfolio diversifier

We studied G10 currencies' sensitivity to both energy and real rate shocks since 2021. The shocks were defined as top 5% daily increases in Brent & TTF prices, and US 2y TIPS yield. **Table 1** illustrates the realized average spot returns during shock days. **Table 2** illustrates the estimated likelihood that a large upside shock in energy prices / real rates coincides with a large negative FX shock when controlling for sentiment effects. See appendix on p. 3 for a summary of the methodology.

On a high level, USD has been a strong portfolio diversifier against real rate shocks vis-à-vis all G10 currencies. The effect is clearly visible in both raw spot returns, but also in the conditional downside probabilities. This suggests the effect is stronger in tails, or that USD is more likely to react positively during large shocks. Even though the estimates do not imply causality, this is important for portfolio diversification, as large real rate shocks often coincide with both equity and fixed income markets weakening simultaneously.

NOK appears the most vulnerable against positive real rate shocks on all metrics, followed by AUD and NZD.

NOK, AUD and CAD have correlated positively with oil prices even vis-à-vis USD, while JPY has had the most negative reaction. Both EUR and SEK are vulnerable against higher natural gas prices, while other currencies' sensitivity is near zero. This suggests that higher natural gas prices affect EUR/USD primarily via the EUR-leg, rather than through USD strength.

More generally, the correlation between EUR/USD and energy prices looks surprisingly uneven. While the relationship with natural gas seems linear, the correlation to oil prices is concentrated on tails. In other words, oil price has a limited impact on EUR/USD on most days, but a very large shock could still pose a downside risk for the cross even beyond sentiment effects.

We speculate that this could reflect ECB's higher likelihood to react to energy-driven inflation vs. the Fed, which means that relative rates mitigate the EUR-negative terms-of-trade effect, unless the latter is very large. These estimates reflect a static picture since 2021, but when studying how the relationships have evolved over the past 15 years, the tail-dependency between EUR/USD and oil only appears after 2022.

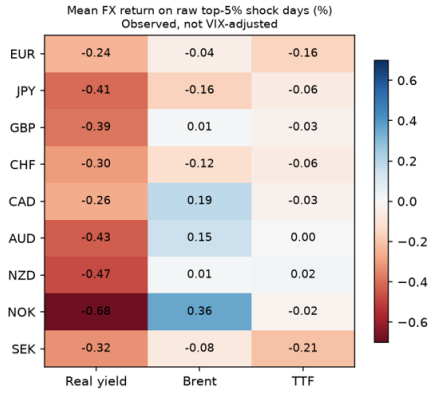
How to trade

EUR/USD risk reversal skews have declined towards the fall, as demand for downside protection has increased. We think this is well justified, as barring last year's temporary episode of politically induced weakness, **USD's diversifying capabilities remain intact. If anything, we find evidence that they might have even strengthened over the past few years.**

In our baseline forecasts, we maintain a bearish view on EUR/USD spot and positive view on both EUR/SEK and EUR/NOK. We see a good chance EUR/USD could test 1.10 over the winter period, but tactically, we prefer ideas that are less exposed to the fiscal EUR stress.

Ideally, we look for trades that align with our baseline views but also provide protection against the aforementioned risk scenarios. If energy prices are soon near their peak, but underlying inflation forces the Fed to keep hiking, we think going **short NOK/SEK** looks attractive. **Short AUD/USD** is another way to reflect a similar global environment, while also being a play on overly hawkish RBA pricing and weak domestic growth in China. Going **long USD/SEK** combines positive carry with attractive portfolio diversifying qualities against both real rate and energy shocks, but we prefer to wait for a better entry level.

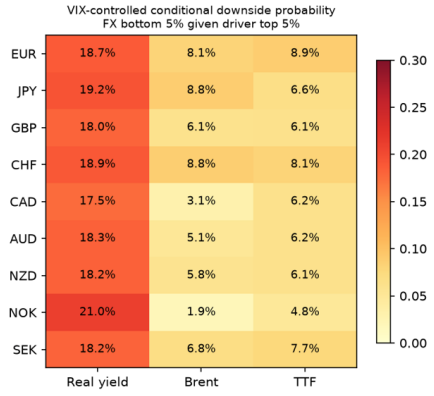
Table 1: NOK has been the most vulnerable G10 currency against real rate shocks



Sources: Bloomberg, Danske Bank. Data since 2021. Negative value signals FX depreciation against USD.

Note: Past performance is not a reliable indicator of current or future results.

Table 2: Model estimate suggests USD's positive correlation to real rate shocks is even stronger in tails. EUR could be exposed to large positive shocks in oil prices, even if correlation is near zero during most days



Sources: Bloomberg, Danske Bank. Data since 2021. Probability benchmark under independence is 5%. A value higher than this indicates possibility of tail-dependence.

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Appendix

The conditional probabilities were estimated with daily FX and energy log-returns, and daily basis point changes in the real rate. The estimation was done using standardized residuals from a fitted AR(1)-GARCH(1,1) time-series model. The AR(1) mean equations include daily changes of the VIX index as a proxy variable for risk sentiment. Standardized residuals were ranked to an interval of (0, 1) and fitted with a Student's t-copula. This was then used to estimate the likelihood that a daily FX innovation lands below its 5% percentile on a condition that energy or rates innovation lands above its 95% percentile.

Note that this is different from empirical conditional frequency. For example, the sample included 71 TTF observations above the 95% percentile. 9 of these coincided with an EUR innovation below the 5% percentile, meaning the empirical conditional probability was 12.7% - above the model estimate of 8.9%. The former describes the realized relationship within the sample but is based on a relatively small number of extreme observations. The copula provides a smoothed estimate of the dependency structure utilizing the entire sample of 1439 daily observations. Note that even if the model indicates the possibility of tail-dependence, it does not imply causality.

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