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Macro & Markets Forecast Edition: Watch OAT for EUR downside

Marketing communication

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EUR/USD reached our H1 2027 target of 1.12 faster than expected. If the recent pressure on European government bond markets persists, the cross could fall further in the near term.

EUR weakness is set to persist in the coming months

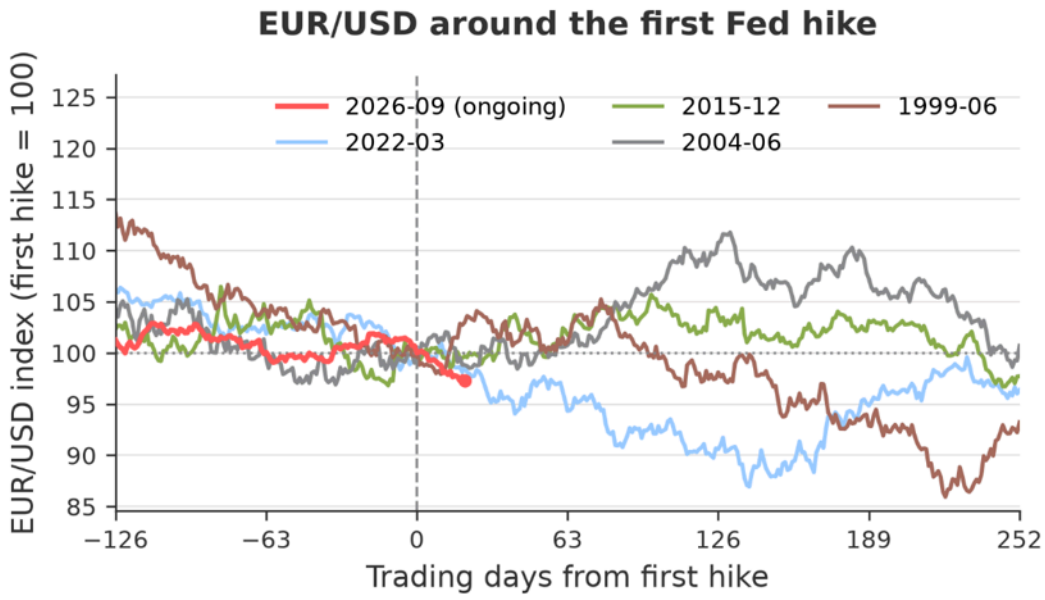
Our dollar-positive call played out faster than expected. The question now is whether the positive USD and negative EUR drivers are fully priced, leaving EUR/USD near a bottom, or whether the dollar rally has further to run. We think it does, for three reasons. **We therefore lower our year-end EUR/USD forecast to 1.10 from 1.14. We expect EUR/USD to test 1.08 in H1 2027 before recovering to 1.14 in H2 2027 and 1.20 by end-2028.**

1. Rate differentials still favor the USD. EUR/USD did not follow the usual "buy the rumor, sell the fact" pattern around the Fed's first hike. The dollar typically appreciates ahead of the first move, but investors remained skeptical as markets shifted from pricing cuts at the start of the year to pricing hikes, partly because of the US midterms. That changed when Kevin Warsh struck a hawkish tone at Jackson Hole. The dollar rally gained momentum after the Fed delivered its first hike and concerns about central bank credibility eased.

Our baseline remains a strong US economy and two further Fed hikes, with risks skewed to the upside. By contrast, the balance of risks around the ECB's hawkish stance has shifted to the downside, keeping the short-end rate differential in the dollar's favor. Elevated energy prices also improve the US terms of trade relative to Europe's, and that advantage could widen if higher energy costs begin to weigh on the euro-area economy.

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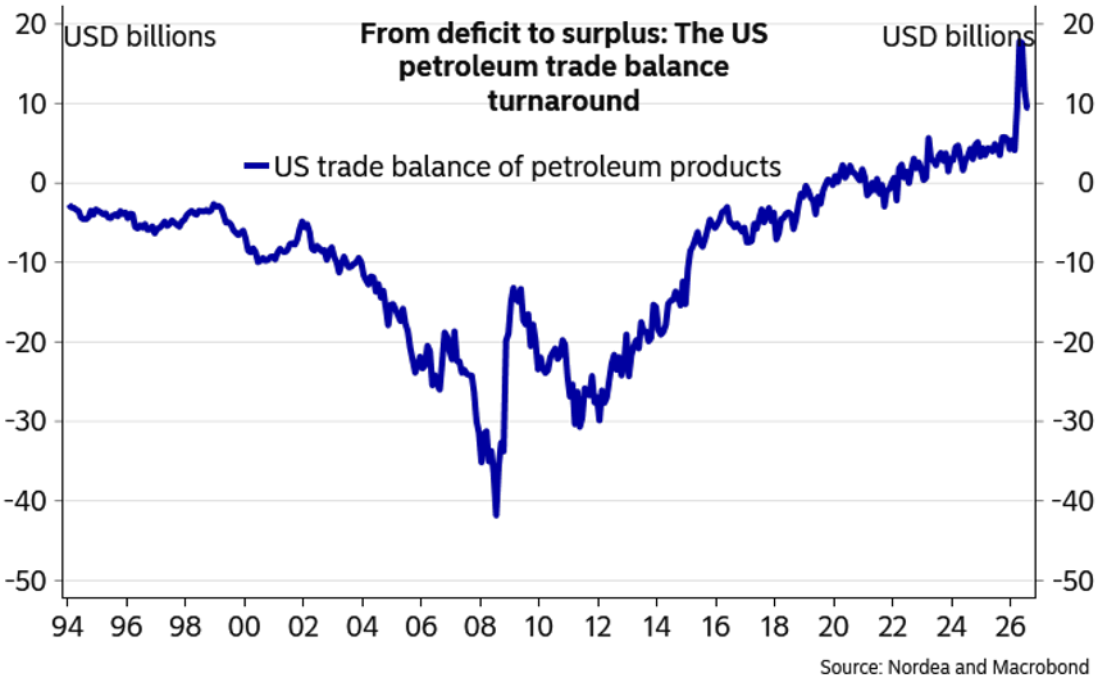
EUR/USD was first to move lower as the hiking cycle was confirmed



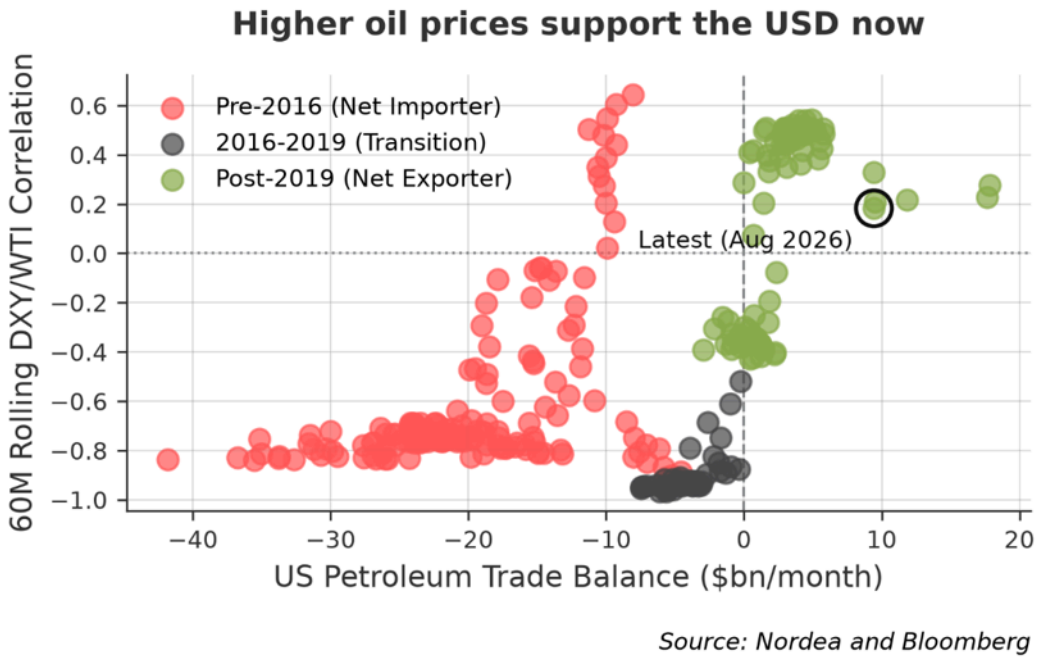
Source: Nordea and Bloomberg

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US petroleum trade balance: From structural deficit to surplus



Higher oil prices increasingly support the USD



Source: Nordea and Bloomberg

2. European political risk now favors the USD. Beyond rate differentials, rising political and fiscal risks in Europe strengthen the case for a firmer dollar. The pressure is greatest in highly indebted economies, where

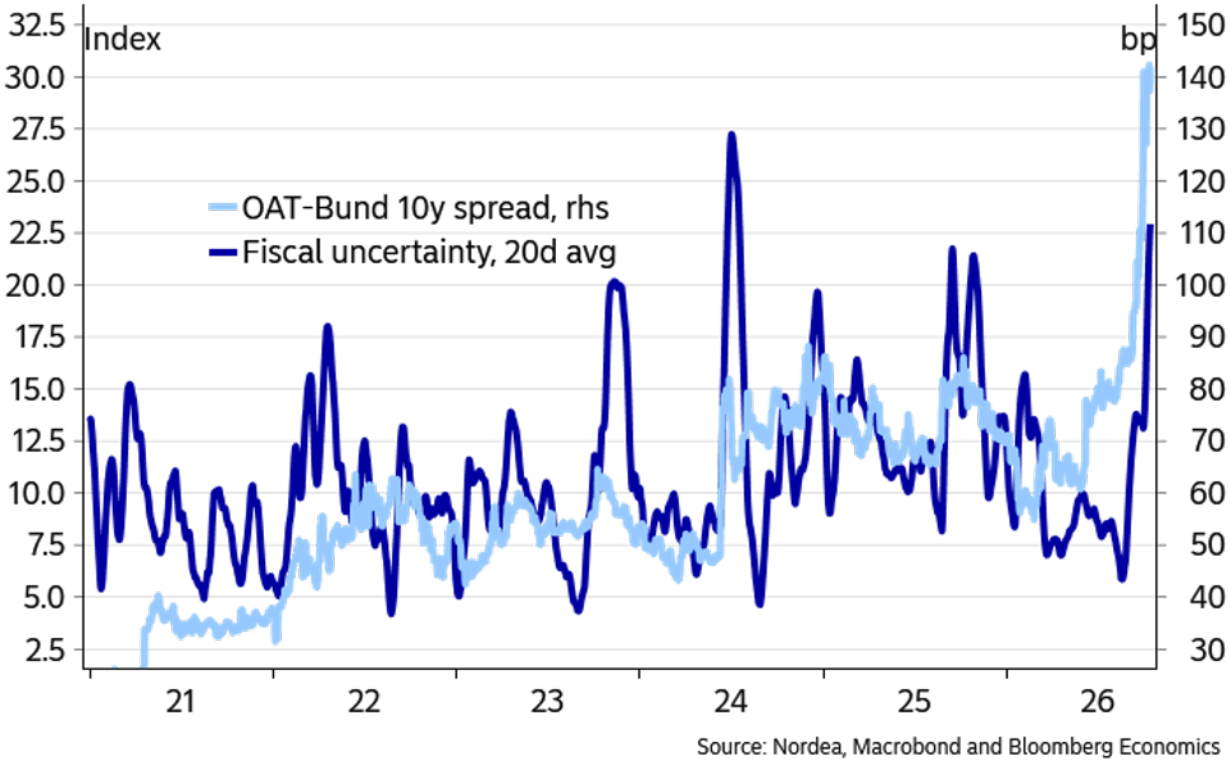
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weak growth and limited appetite for reform leave public finances increasingly exposed to higher global yields. Unlike the US, these economies lack the nominal growth needed to offset rising borrowing costs, further constraining fiscal space as interest expenses climb.

France is the clearest expression of this broader vulnerability. The immediate concerns are threefold: a high debt burden and rising interest costs, the difficulty of passing a credible 2027 budget, and the risk of a Le Pen victory in next year's presidential election. These domestic risks are colliding with a more difficult regional backdrop of higher yields, elevated energy prices and the prospect of further ECB tightening. This combination is clouding the fiscal outlook and pushing French government bond yield (OAT) spreads wider.

The sharp widening in OAT-Bund spreads therefore appears to reflect more than a routine bout of risk aversion around the French budget. Markets are assigning a broader premium to France's fiscal and political outlook, reinforcing downside risks to the euro.

French fiscal risks drive OAT-Bund spreads wider



Source: Nordea, Macrobond and Bloomberg Economics

3. AI-related inflows continue to favor the US. Inflows into US equities and credit are unlikely to fade simply because interest rates are slightly higher. Passive investment reinforces this trend because broad indices remain heavily concentrated in US mega-cap technology stocks. To the extent that these flows remain unhedged, they create sustained demand for dollars. Europe has no comparable source of inflows: its equity story is less compelling, while renewed French fiscal uncertainty is reviving concerns about sovereign risk.

The main risk to our EUR/USD forecast is a sharp reversal in the AI investment cycle. A bursting AI "bubble" would weaken US asset inflows and challenge our dollar-positive view. For now, however, the evidence still

points to resilient activity rather than a broad reversal. South Korean and Taiwanese exports are improving, as are global PMIs, while earnings have remained solid and repeatedly exceeded analysts' expectations in recent quarters. These indicators do not rule out high valuations, but they provide little evidence that the investment cycle is already turning.

Overall, we remain constructive on the USD relative to the EUR over the next six to nine months. We therefore lower our year-end EUR/USD forecast to 1.10 from 1.14 and expect the cross to test 1.08 in H1 2027. Wider rate differentials, unhedged AI-related capital flows into US equities and credit, Europe's energy headwind and persistent political uncertainty should keep EUR/USD under pressure through H1 2027. We expect the balance to shift later in the year as US inflation eases, the Fed finishes hiking and concerns about US debt sustainability and the durability of the AI investment cycle become more prominent. That should allow EUR/USD to recover to 1.14 in H2 2027 and 1.20 by end-2028.

We expect a stronger NOK into 2027

We expect EURNOK to decline towards 10.50 over the coming three months and further towards 10.25 by the summer of 2027, implying continued NOK strength from current levels. EURNOK fixed at 10.7 as of writing, already some 10% below the December 2025 average, and the move has been under way for most of this year. There are several reasons why we believe the balance of risks has shifted further in the NOK's favour, and why we see this as more than a short-lived appreciation.

First, the euro now carries a fiscal problem that the NOK does not. As set out above, France is paying considerably more to borrow, and we see limited prospect of that reversing quickly. Unwinding it would require a credible multi-year consolidation plan, and with the budget and the election both still ahead, such a plan appears some way off.

Norway faces no equivalent constraint. There is no fragmentation risk to price, since Norway sits outside the currency union and its bonds are not judged against a German benchmark. Nor is there a funding need to defend. **The country owns far more abroad than it owes.** Taxes fund most public spending, and the wealth fund covers the gap, so the state has no need to borrow. It still issues some government bonds, but mainly to keep a well-functioning bond market. Where France has to convince investors it can keep funding itself at a reasonable cost, Norway has nothing to prove. That contrast is not new in itself. What is new is that investors have started paying attention to public finances again, **which could turn a long-standing difference into an active driver of the currency going forward**.

A further deterioration in sentiment around France could also create periods of market volatility. That would likely weigh on the NOK in the short term, as the krone tends to weaken when risk appetite falls and credit spreads widen. We therefore do not expect NOK strength to develop in a straight line. However, while such episodes could result in meaningful NOK weakness, we believe the broader forces discussed above are likely to outweigh these shorter-term swings over time, leaving the balance of risks tilted towards a stronger NOK.

Second, we expect oil prices to remain supported for longer than is currently priced. We take no view on the conflict itself beyond its likely duration. It has continued since February, it has settled into a stalemate, and neither the political calendar nor the shipping data points to an early resolution. A president who loses

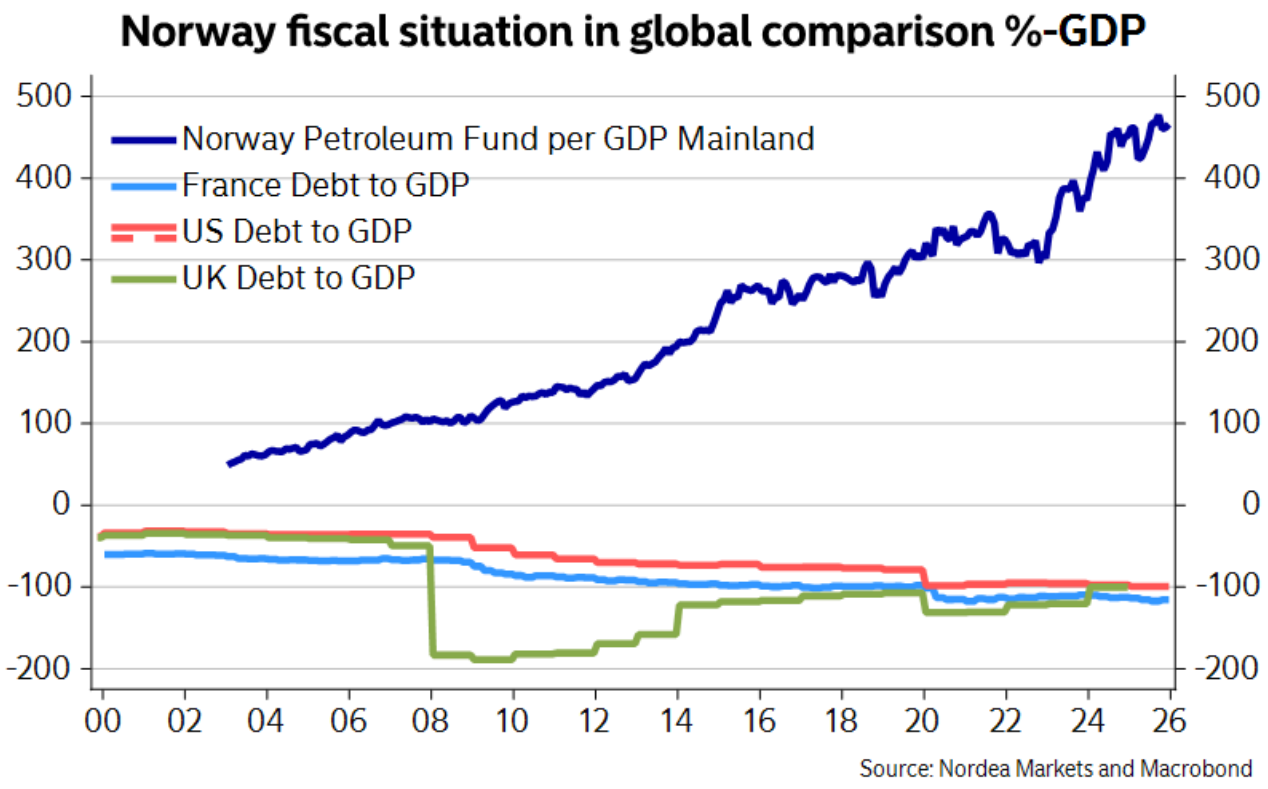
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Congress has more room to act abroad than at home, which in our view skews the risks towards persistence rather than settlement.

Third, Norges Bank is in a considerably more comfortable position than the ECB. Norges Bank raised the policy rate to 4.50% in September and indicated that it will remain elevated for some time. The ECB is at 2.50%, leaving a 200bp differential in the NOK's favour. The level of the spread is, however, the less interesting point.

What matters more is what each further hike costs. Norges Bank is tightening into an economy that is still adding jobs, with capacity utilisation close to normal. Every ECB hike, by contrast, raises French borrowing costs at a time when French spreads are already at crisis-era levels. **Norges Bank can maintain a restrictive stance for as long as the inflation outlook requires, whereas the ECB will be reminded of its constraints at each meeting.** There is also a feedback mechanism worth highlighting. Norges Bank treats krone weakness as inflationary and would be a reason not to ease quickly. A weaker NOK therefore tends to lift the expected rate path, which in turn supports the currency. The euro has no comparable mechanism.

Overall, we therefore expect continued NOK strength towards year-end, with EURNOK at around 10.50 on a three-month horizon. More importantly, we do not regard this as a short-lived move. Looking into 2027, we therefore expect EURNOK to decline further towards 10.25.



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SEK – a Mea Culpa on the SEK

House view: Our long-standing positive outlook on the Swedish krona has failed to materialize. We had anticipated a brief conflict and a subsequent decline in energy prices and rates, but this has not occurred. Looking ahead, we remain agnostic and hold no definitive view on how the Middle East drama will unfold. Consequently, we are revising our forecast upward, maintaining this stance until the fog lifts.

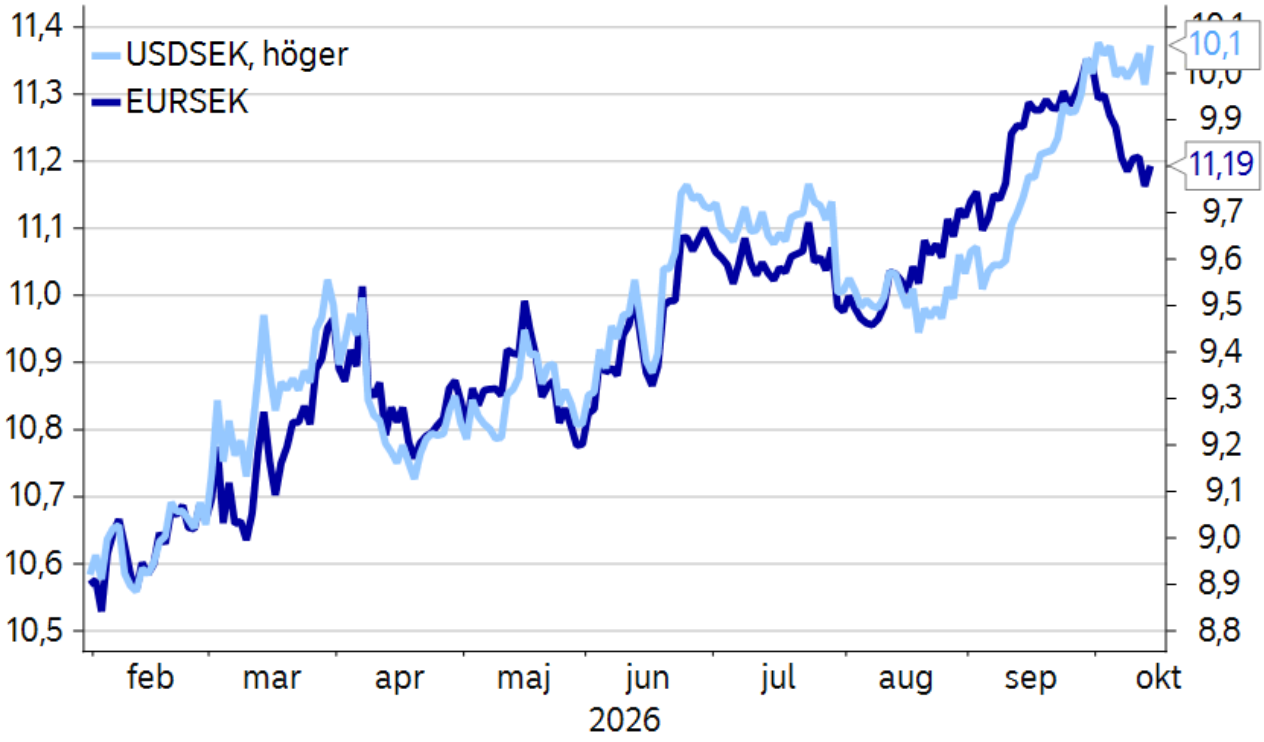
The geopolitical escalation in the Middle East in late February marked a watershed moment, triggering a cascade of market movements that hampered the krona. The initial reaction was a risk off that strengthened the dollar. Then came the repricing of the Fed and a dramatic shift in short interest rates, followed by exceptionally strong Q1 and Q2 results from the US megacaps and hyperscalers. The OMX and Eurostoxx have returned a mere 1% since the outbreak of the war in early March, compared to a staggering 22% for the Nasdaq100 over the same time period.

Furthermore, The Riksbank is lagging the ECB policy rate by a full 75 basis points, an unprecedented divergence. Hopefully, we will see a shift in the SEK when the first 25 bps is delivered in November but its far from a guarantee. As of now the SEK is a funding currency.

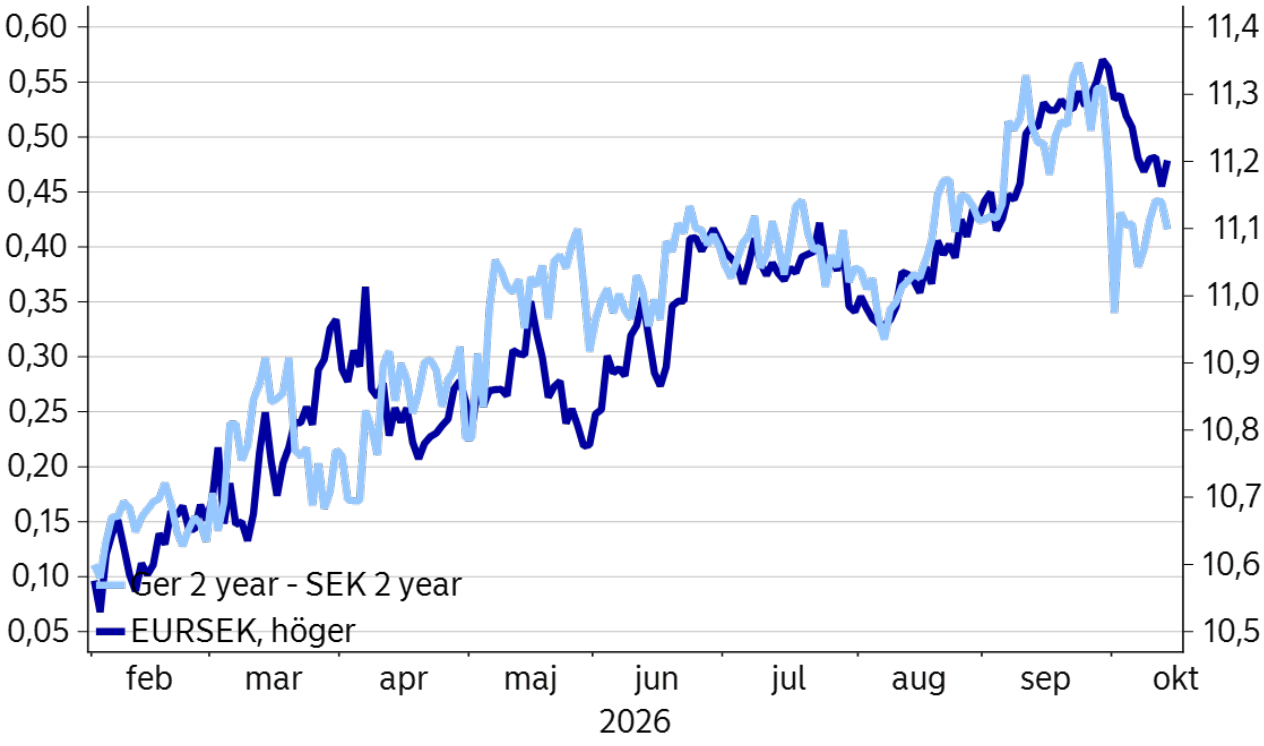
To make matters worse the krona has also been weighed down by the "Scandie trade," where the NOK is supported by higher energy prices and a policy rate that sits 275 basis points higher than the Riksbank's. Consequently, the market is buying EURSEK and selling EURNOK to establish a long NOKSEK position.

We need to see a drop in oil priceswith easing inflationary pressures and lower global short rates in order for the SEK to strengthen again. But as of now, providing a specific future level for the krona would require knowing where oil prices will stand in X months, which we do not.

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GBP – Autumn budget in focus

House view: EURGBP has traded in the range 0.84-0.87 since late February when the conflict in the Middle East escalated. The GBP appreciated by 2% last month pushing the FX-pair towards the lower bound of the interval. This movement is attributed to external factors including a stronger dollar and fading confidence in Europe amid political and fiscal uncertainty in France.

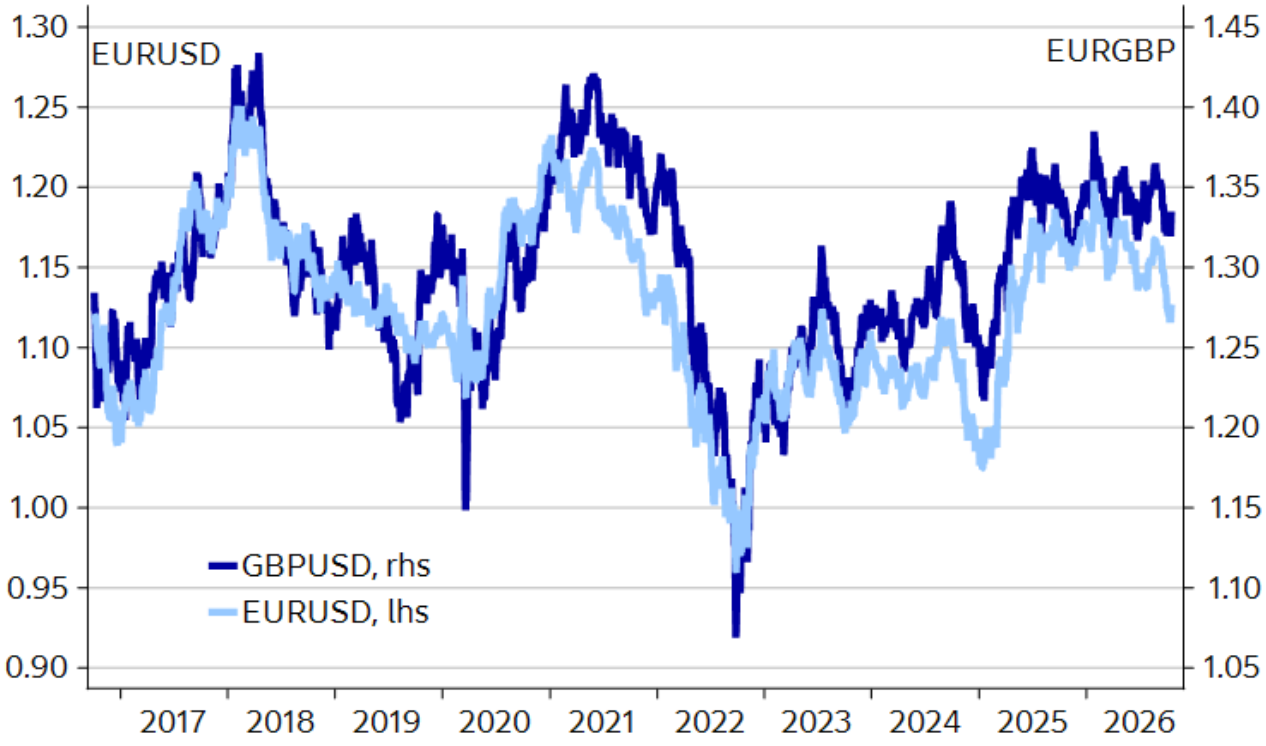
The GBP has gradually lost its carry attractiveness with the **Bank of England** maintaining its policy rate at 3.75% this year. Core inflation remains too high, however, and rose by 2.6% year-on-year in August. Second-round effects from higher commodity prices have yet to appear in the data. It is becoming an increasing concern as the conflict remains unresolved. Financial markets assesses a November hike a done deal and expects an additional three hikes the coming year.

Economic performancehas been resilient amidst the geopolitical turbulence with GDP growth averaging +0.6% quarter-on-quarter this year. Consumer confidence has normalised and PMI-numbers point to modest growth in Q3.

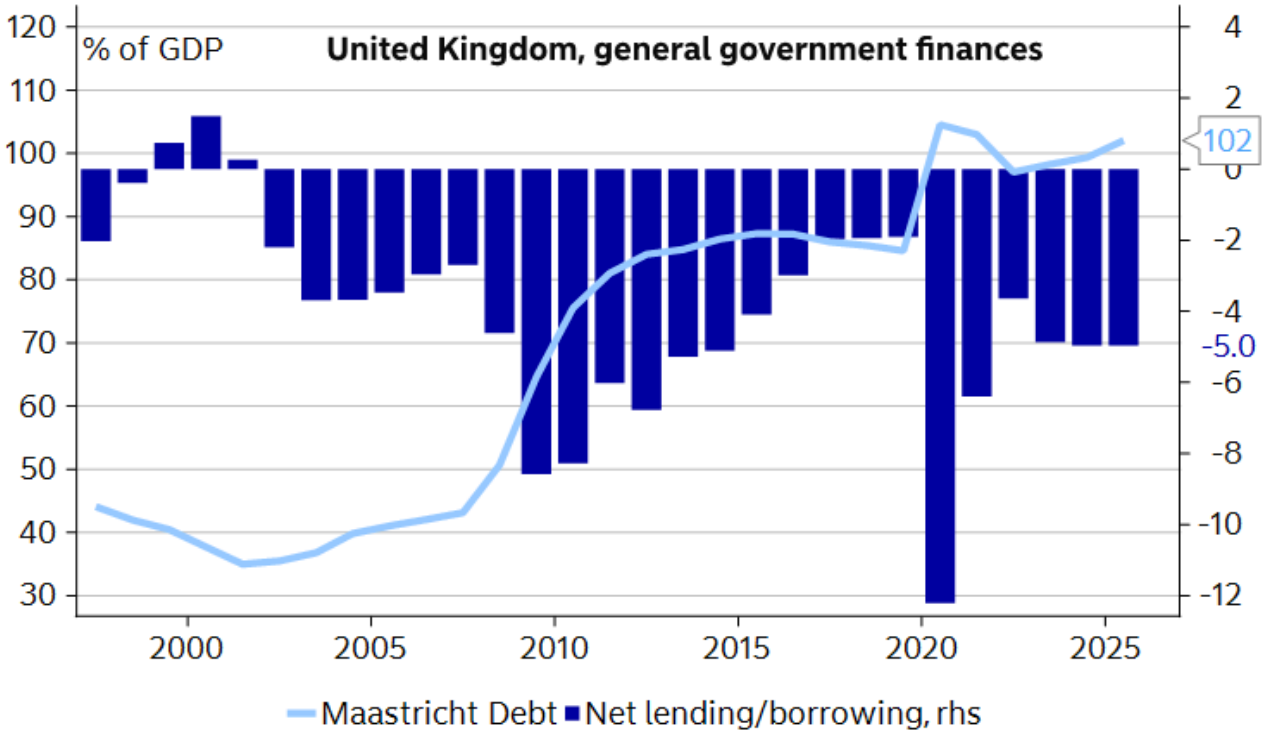
The **Autumn Budget Bill**, due to be presented on October 28th, will be the biggest challenge to date for Premier Minister Burnham and Finance Minister Healey. The mini-budget showdown in 2022 remains fresh in memory and with current market focus on debt and deficits, it will be a difficult act for the government to balance fiscal discipline and market confidence. UK gilts have sold off alongside global bonds, with the 30-year yield hitting 6% for the first time since 1998.

The GBP is expected to further gain some ground on the back of a lower EURUSD. A November hike from the Bank of England should help the GBP regain some carry advantage, but it will on the other hand dampen the longer-term growth prospect. The upcoming budget is, however, the center of attention and the main risk to our EURGBP call. There is a looming risk that markets could be dissatisfied with the fiscal measures aimed at reducing the budget deficit, which could push yields higher and weaken the pound.

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Source: Macrobond and Nordea



Source: Macrobond, Nordea and ONS

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Nordea FX-forecasts					
	Spot	3M	Mid-2027	End-2027	End-2028
EUR/USD	1,13	1,10	1,08	1,14	1,20
EUR/NOK	10,62	10,50	10,25	10,25	10,25
EUR/SEK	11,14	11,15	11,15	11,15	11,15
USD/NOK	9,43	9,55	9,49	8,99	8,54
USD/SEK	9,88	10,14	10,32	9,78	9,29
SEK/NOK	0,95	0,94	0,92	0,92	0,92
EUR/GBP	0,84	0,84	0,84	0,87	0,89

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