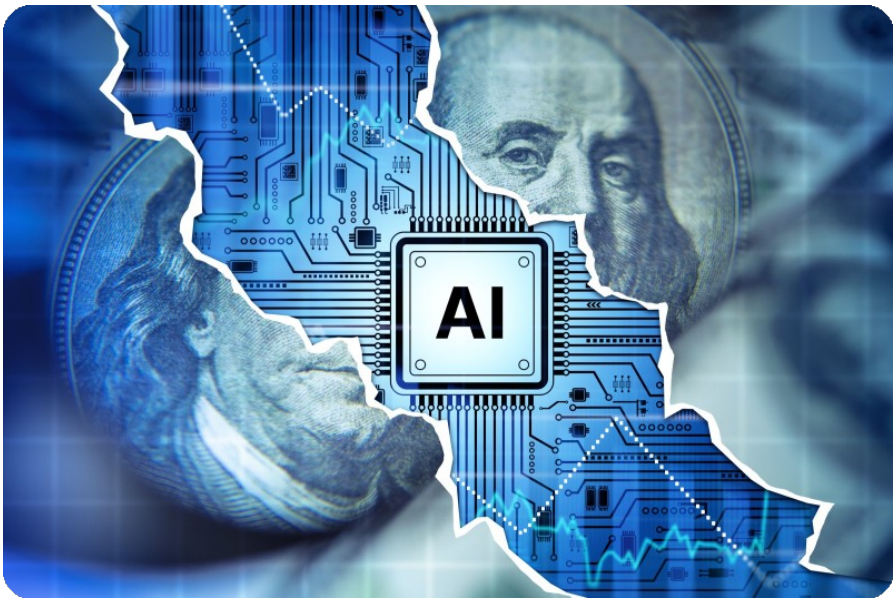
Article | 19 October 2026 FX

FX Daily: AI jitters have damaged USD safe haven appeal

After big moves in front-end USD rates, the dollar has shown it could be a laggard in further stock market instability if led by AI concerns. Still, we don't think we are on the brink of a major USD decline. EUR/USD may struggle to stay supported today as protests in France spill over into local assets, while we see limited impact from US-Ukraine news for now



Markets will be closely monitoring AI, France and Ukraine this week

USD: AI jitters leave USD on less solid ground

AI-related jitters entered the FX picture last week, although currencies are more accurately borrowing the reaction from the rates channel. The USD two-year OIS/SOFR has dropped 25bp from the 14 October post-US CPI print. These are mammoth moves considering they have been driven almost entirely by AI concerns, with effectively no macro input.

Markets appear to have a clear reaction function in mind: stock market turmoil is enough to drastically reduce Federal Reserve tightening plans, even with inflation running hot. The reasoning is probably linked to the market wealth effect that many believe has underpinned US economic resilience. This is enough to suggest the dollar will not be the safe-haven of choice and may actually lag many other G10 currencies if stock market instability originates in

tech/AI.

Still, contagion to broader US and world equity indices has so far been contained, while the Nasdaq drop has only erased the last 30 days of gains. AI-related sentiment will remain an input for FX this week, but could easily fade if tech stocks find some stability. From a macro perspective, despite the repricing lower in US rates, we do not feel this marks the start of a major USD downtrend. A December Fed hike remains a likely outcome; policymakers do not appear to be in a position to send a dovish message at the October meeting, and still-elevated energy prices argue against a material recovery in global bond markets.

A return to 101.0 in DXY remains possible over the coming weeks, but we do not see much more downside beyond that for now. The US calendar is rather light this week, while the FOMC is in its pre-meeting communication blackout. For now, we are not observing any obvious FX impact from souring US-Ukraine (and Europe) relationships. Markets are probably quite cautious about pricing in an imminent end to the Russia-Ukraine conflict or any longer-term implications for Europe. Things could change in the case of meaningful developments this week.

Francesco Pesole

EUR: French protests may curb upside for now

EUR/USD briefly dropped back below 1.120 overnight before inching higher again this morning. The move in short-term rate differentials has pushed our short-term fair value estimate for EUR/USD higher to around 1.137-1.139. The current undervaluation is therefore around 1.3-1.5%, broadly consistent with French fiscal risk remaining very much present, as reflected in the 10yr OAT-Bund spread hovering around 135-140bp.

Markets have appeared tentatively more relaxed about the budget situation. Still, continued widespread protests in France over the weekend should weigh on domestic stocks and could spill over into the bond market. We doubt that is enough to drive further sustained widening per se, but it may limit EUR/USD's ability to return to Friday's levels.

On the macro side, the highlight of the week is Friday's PMI release. Expectations are for a modest softening in the eurozone composite figure, while remaining well inside expansionary territory. Tomorrow, Germany's ZEW index will be in focus.

The balance of risks for EUR/USD is fairly even at this stage. Downside risk continues to stem from France, although it has abated somewhat as of late, while the upside comes from further AI concerns hitting Fed rate expectations. Our month-ahead target remains 1.130.

Francesco Pesole

CAD: Inflation still OK, a hike still possible

Canada releases inflation data for September today. The headline rate should accelerate at a 0.2% month-on-month pace, not particularly hot, especially given core measures have remained anchored around 2.0%.

The jobs market has given some warning signals, with two consecutive negative prints in August and September and the unemployment rate rising to 6.5%. Still, with growth proving resilient and a widening rate spread with the Fed, an (insurance) rate hike in December by the Bank of Canada remains a clear possibility. The BoC also releases its business outlook survey today.

Markets are fully pricing in a 25bp December hike, as well as 9bp for next week's meeting. That suggests limited upside for the Canadian dollar, even if the October meeting is used to set the stage for a December move. That is, barring a surprise October hike, although we don't sense that markets are underpricing here.

We don't see much more downside for USD/CAD at this stage, with a return to 1.420 still our baseline for the month-end and year-end.

Francesco Pesole

CEE: Hungary to release its budget plan for the coming years

Today's focus is Hungary's draft budget for next year. Hungarian bonds have rallied strongly in recent weeks on growing expectations that the plan will target a deficit below 5% of GDP. However, much of the good news now appears priced in, creating downside risk if the government falls short of expectations. Even so, the broader outlook for bonds remains positive, particularly compared with this year's 7.0-7.5% deficit, and we expect investors to buy any dip following a sell-off.

The region's first economic releases arrive on Tuesday, with Polish wage, PPI and industrial production data. The main focus, however, will be the National Bank of Hungary meeting. We expect rates to remain unchanged at 5.50%, leaving attention on forward guidance. Although the central bank has identified the fiscal plan as a key factor for future easing, we believe cuts remain premature and, global conditions permitting, are unlikely before the end of this year or next year.

On Thursday, we expect the Central Bank of Turkey to resume its easing cycle for the first time since the US-Iran conflict began, cutting rates by 100bp to 36.00%. September's inflation data provided a positive signal, while developments in investment funds point to downside risks for the economy in the final quarter. Although crowded long TRY positions offer less and less

carry, they remain popular in emerging markets, and we expect this demand to persist in the coming months despite renewed rate cuts.

Beyond the scheduled events, we are monitoring political developments in Romania, where the new government appears highly likely to win a confidence vote. This should help stabilise EUR/RON after its decline late last week, and we expect the pair to settle around 5.340. In the Czech Republic, the Czech National Bank may offer its first signals ahead of the November meeting, when we expect another rate hike.

Frantisek Taborsky

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.