FI and FX Daily Brief

Summary

On Friday, Moody's announced that France's rating is kept on hold at Aa3, but still retaining the negative outlook. This was surprising and could possibly help ease the pressure on French government bonds. EUR/USD seems to have taken a breather around 1.12 for now, but we expect the cross to move gradually lower from here. Last week's winner in G10 FX was, once again, the Norwegian Krone, benefitting from both higher energy prices and resilient domestic data. With EUR/SEK seemingly finding a trough around 11.10, NOK/SEK broke above 1.06 for the first time since late 2022. Looking ahead to the rest of the week, central bank decisions including the Fed, ECB and BoJ will be key market drivers.

Majors FI

The big event in the European market on Friday was Moody's announcement on France. Moody's kept the rating of France on hold at Aa3, but the outlook is still negative. This was a surprise and should ease the pressure on French government bonds as well as French agency bonds. In the statement Moody's assume that the budget deficit in 2027 will be 5.2% of GDP, while the government has put forward a proposal of 5% of GDP. If the French government can deliver a credible budget deficit of 5%, then that should give some leeway for France. In another report earlier this week, Moody's looked at French banks' exposure to the sovereign and sub-sovereign bonds. Here, Moody's find that the exposure is modest and manageable and banks have plenty of liquidity to absorb any refinancing risks. In terms of trade ideas, we stick to the front-end trade, where investors buy 2Y-3Y OATs or French covered bonds. The French Debt Office is committed on the buybacks in the front end, which increased significantly in September.

In terms of key economic data, the European PMIs surprise on the downside, but not enough to change our view of the current state of the euro area economy. Growth is still decent although at slightly lower momentum while price indices show limited passthrough of energy costs to underlying inflation. For the ECB, the report should thereby support the gradual hiking approach with a stocktaking meeting next week and the next hike in December.

The main events this week is the central bank meetings in US, Japan and Europe. We expect that all three central banks will be on hold before resuming rate hikes later this year. We expect that there will be plenty of questions on France at the ECB meeting, but we do not expect Lagarde to commit to anything regarding France. In terms of government bond auctions, then we have EU doing the usual auction on Monday, where they tap EUR 7.5bn in the 3Y, 10Y and 25Y benchmarks. Belgium will sell up to EUR 2.8bn in the 7Y, 10Y and

14Y benchmarks. Germany will sell EUR 5bn in the 2Y benchmark on Tuesday and EUR 5.5bn in the 10Y benchmark on Wednesday. Italy will tap in linkers and short-term bonds on Tuesday and medium to long-term bonds on Friday. In the Scandies, Sweden and Norway is coming to the market. Sweden will sell SEK 5bn in 6Y and 11Y benchmarks. The Debt Office at Norges Bank will announce today at 12am (local time), what they will sell on Wednesday. We believe that they will tap in the 10Y benchmark again.

Majors FX

EUR/USD opened higher above 1.12 after the weekend despite Trump's threats that 'decision time' on Iran will soon be near. Moody's decision to hold France's credit rating unchanged on Friday could contribute to some near-term EUR strength.

This week will be all about central banks. We expect the ECB, The Fed and Bank of Japan to hold rates steady, which is largely priced in by markets. Meanwhile, Bank of Canada is likely to deliver its first hike of the cycle on Wednesday, while the Reserve Bank of New Zealand (RBNZ) is set for its third hike in a row.

Even if this week's rate decisions are not expected to drive as aggressive of a repricing as the previous September round, we still expect relative monetary policy to drive EUR/USD lower over the next 6 months. We doubt the ECB will be able to continue hiking after December, while the Fed will extend its tightening cycle also into 2027. Read our previews for both the ECB and the Fed.

Scandies

NOK continued to strengthen on Friday, with EUR/NOK closing around 10.44 and USD/NOK around 9.30. The move was supported by a further rise in oil prices, with Brent crude briefly reaching USD 117 per barrel.

As noted in the recent RtM Norway report, Norway stands out positively in a market increasingly focused on balance-sheet risks. High energy prices and resilient domestic data contribute to a robust outlook for NOK, particularly amid uncertainties surrounding European fiscal risks. You can find more details about NOK and NGBs being a safe haven in our latest RtM Norway. We also keep our long in 10Y NGBs versus swaps and recommend foreign investors buying NGBs even with the high cost of the currency hedge.

The Swedish Krona traded relatively stable last week, with EUR/SEK briefly venturing below 11.10 before settling above. Despite the SEK's strong run thus far in October, it remains the worst performing G10 currency year-to-date. In our view, this underperformance is mainly due to the Riksbank's negative policy rate gap versus peers, and the geopolitical uncertainty, a view that was echoed by Riksbank Deputy Governor Per Jansson last week. We expect EUR/SEK to trough around current levels and view the cross as a buy-on-dips should we once again try for a break below 11.10.

Tactical views

FX

EUR/USD - On a structurally declining trend

EUR/NOK - Tactically neutral. Strategically bullish.

EUR/SEK - Back at our 1M target, a buy-on-dips from hereon

EUR/GBP - Tactically neutral and strategically bullish

USD/JPY - Looking for strategic selling opportunities

EUR/DKK - DN to cap EUR/DKK around the 7.4760 peak from August

USD/CNY - Tactically sell on rallies, strategically bearish

Fixed Income

Europe - Bund ASW-spreads to tighten

US - 10Y US Treasury yield at 5.20% in 12M

Sweden - Look for SEK underperformance vs EUR

Norway - Look to enter steepeners in the coming month

Denmark - Long high-coupon callables versus DGBs and swaps

Commodities

Oil - to stay elevated near-term on tight supply conditions

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