FI and FX Daily Brief

FI and FX Daily Brief - EUR/USD closing in on year-to-date lows ahead of Fed decision

Summary

There were only modest moves in global rates yesterday, with the OAT-Bund spread widening slightly. In FX, however, we saw more action with EUR/USD trading sharply lower, closing in on year-to-date lows. Despite the dollar strength, the Scandie currencies also performed, with EUR/NOK reaching new year-to-date lows just below 10.40 and EUR/SEK briefly touching 11.05. Looking at the full G10 spectrum, yesterday's price action was most likely predominately another reflection of broad-based EUR weakness. Tonight, all eyes are on Fed, which are expected to leave rates unchanged. Nevertheless, we expect Wars to reiterate his firm commitment to bringing inflation back to target, with our base case being another two hikes in December and March.

Majors FI

There have only been modest movements in bond yields with a slight widening of the OAT-Bund yield spreads. There was again a modest demand at the 2Y German auction yesterday, where they sold EUR 3.8bn in the Schatz 3% 2028 and retained EUR 1.2bn. There were bids for EUR 5.05bn, which is in line with what we have seen in previous auctions. So, despite the potential safe-haven flows into German government bonds, then we are not seeing much demand in the 2Y German government bond auctions, where there has been a steady decline in the bid-to-cover since mid-2025.

Today, the German Debt Office will sell EUR 5.5bn in the 10Y benchmark. Here we have also seen a decline in the bid-to-cover at the auctions, and it will be interesting to see if the trend continues.

The main event in the market is the FOMC meeting, where we expect the Federal Reserve to be on hold. This is in line with consensus and given that there will be limited "forward guidance" then it will be interesting to see the communication ahead of the mid-term elections. We also central bank meetings in Canada and New Zealand and then we have the UK budget for 2027. Here it will be interesting to see what the new PM and the Chancellor can come up with in terms of spending cuts and increased revenue to stabilize the UK government bond market. The yield on 10Y Gilts has not seen the same decline as we have recently seen in the 10Y US Treasury bond.

Majors FX

EUR/USD traded sharply lower and below 1.1130 throughout yesterday's session without a clear trigger. EUR weakened on a broad basis against every other G10 currency with AUD and scandies leading the gains alongside the USD. NZD weakened sharply this morning after RBNZ held rates steady even when markets had almost fully priced in a hike.

Markets are pricing just 1-2bp for tonight's FOMC meeting. We agree with the consensus and do not expect monetary policy changes for now. Warsh is likely to reiterate his firm commitment to bringing inflation back to target, which should maintain December as the base case for the next hike. Markets are fully locked into the idea of quarterly hikes, with exactly 50bp priced in by March, in line with our call.

But we still see further EUR/USD downside potential stemming from the EUR-leg. Markets are starting to doubt the near-term case for ECB's rate hikes, which marks are stark shift from September, when tomorrow's meeting was priced as a nearly certain hike. Now, nothing is priced for tomorrow, and even the December hike is less than 80% certain. We still think the ECB will deliver one more hike in December, but end the tightening cycle then. If we're right, markets are still pricing the ECB's policy rate around 45bp too high in one year's time.

While the FOMC meeting will undoubtedly be today's main event, we will also keep an eye on Bank of Canada's rate decision in the afternoon. We expect the first rate hike of the year, which is around 85% priced in. The meeting was priced as a likely hold until around 1.5 weeks ago, when Governor Macklem's hawkish remarks turned the tide. EUR/CAD is trading close to its lowest level since last March, and if today marks the beginning of a longer hiking cycle, the decline could well extend further.

Scandies

The Norwegian krone traded mixed yesterday, with EUR/NOK dipping below 10.40, marking the krone's strongest level against the euro so far this year. The move was primarily a euro weakness story rather than broad-based NOK strength, as the krone weakened against the US dollar and several higher-beta G10 currencies while gaining against the euro and the Danish krone. Euro sentiment was hit by French fiscal concerns and softer euro area credit signals. At the same time, lower oil prices, with Brent trading just below USD 114 per barrel, and a firmer US dollar ahead of the Federal Reserve decision remained headwinds for NOK more broadly.

Today, the Debt Office at Norges Bank will sell NOK2bn in the 3Y and 10Y benchmarks - NGB 1.75% 06/29 and NGB 4.125% 06/36. This is its fourth auction in October and leaves just two for November and two in December. It has scaled down the auction sizes to NOK2bn, and we expect it will continue to do just NOK2bn at the auctions in November and December as it is getting close to fulfilling the issuance target for 2026 of NOK107-110bn

The NGBs have become expensive versus swaps, both in the 3Y and 10Y benchmarks, but the outright level is still very attractive in the front end of the NGB curve. Part of the explanation for the move in the ASW-spread in the 10Y segment is likely to be the slowdown in NOK-den. issuance from foreign issuers such as SPIRE etc. which dampens demand for NOK swaps. We still like the 10Y versus swaps but also against EU peers. The 3Y looks attractive from an outright perspective.

The SEK had a constructive session yesterday, with EUR/SEK trading lower towards 11.05, before reversing some of the move towards end-of-day. With no apparent domestic trigger, and looking at other SEK-crosses, the most likely explanation is that it was once again predominately EUR weakness driven the cross, with some modest follow-through in other SEK-crosses.

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

Jesper Fjärstedt, Senior Analyst, FX Strategy

Report completed: 28 October 2026, 06:40 CET

Report first disseminated: 28 October 2026, 07:15 CET

Marketing communication. This communication is "marketing communication" and is not intended to constitute "investment research" as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication.

