

Forex Flash

Central bank rhetoric is driving the market

- Next week will begin with the US dollar in a dominant position, at nearly two-month highs against major currencies, buoyed by soaring bond yields and growing expectations of a further Fed rate rise in October, now priced in at 83% by the market.
- This week, two Scandinavian central banks and the Swiss National Bank announced their monetary policy decisions, against a backdrop of rising global inflation driven by the energy shock caused by the war. Norges Bank raised rates by 25 basis points to 4.5 per cent; the Riksbank kept its rate unchanged at 1.75 per cent but signalled a rise by the end of the year; whilst the SNB confirmed its rate at 0 per cent, standing out with a decidedly more accommodative message.
- The three key themes for next week are:
 1. The US interest rate differential, with the dollar buoyed by the Fed's hawkish rhetoric and Treasury yields at their highest since 2007.
 2. Geopolitical risk linked to the Iran-US conflict and the Trump-Xi summit
 3. Central bank statements will provide crucial guidance on the direction of global monetary policy and, consequently, on exchange rate dynamics in the coming weeks.

Next week will begin with the US dollar in a dominant position, at nearly two-month highs against major currencies, buoyed by the surge in bond yields and growing expectations of a further Fed rate hike in October, now priced in at 83% by the market. The EUR/USD is trading at ~1.14, the GBP/USD at ~1.32, and the USD/JPY has risen to ~158, against a backdrop of strong risk aversion fuelled by geopolitical tensions in the Middle East and oil prices once again above \$100 a barrel.

The EUR/USD has lost around 300 pips over the past month, slipping from a high of 1.1687 on 24 August to an intraday low of 1.1367 on 23 September – its lowest level since 28 July. The cable (GBP/USD) has followed a similar trajectory, falling by around 400 pips from its August highs. The yen has been particularly volatile: after hitting a low of 152.87 on 8 September, the USD/JPY exchange rate rebounded sharply towards 158, a move of over 500 pips driven by the combination of the Fed's hawkish rate hike and the BoJ's perceived dovish rate hike.

This week, two Scandinavian central banks and the Swiss National Bank announced their monetary policy decisions on 24 September 2026, against a backdrop of rising global inflation driven by the energy shock caused by the war. Norges Bank raised rates by 25 basis points to 4.5 per cent; the Riksbank kept its rate unchanged at 1.75 per cent but signalled a rise by the end of the year; whilst the Swiss National Bank (SNB) confirmed its rate at 0 per cent, standing out with a decidedly more accommodative message.

These decisions form part of a global tightening cycle fuelled by the energy shock linked to the conflict in the Middle East. Government bond yields worldwide have surged to multi-decade highs – the 30-year US Treasury reached 5.48 per cent, its highest level since 2004 – reflecting expectations of further monetary tightening and fears of persistent inflation.

25 September 2026

Weekly Note

Research Department

Rates, FX & Commodities
Research

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Norges Bank – Rate rise to 4.5%

Norges Bank was the most aggressive of the three, raising rates by 25 basis points to bring the key rate to 4.5 per cent.

Governor Ida Wolden Bache stated: *"Inflation has been above target for several years. By raising the key interest rate, we are helping to bring it down. It will probably be necessary to keep the rate high for some time, and the Committee is prepared to raise it further if necessary to bring inflation back to the 2 per cent target within a reasonable timeframe."*

The markets are fully pricing in a further 25 bp rise by next March; the next decision, scheduled for 5 November 2026, is expected to result in rates remaining unchanged.

Riksbank – Pause with a hawkish signal

The Riksbank kept the key interest rate unchanged at 1.75 per cent, but sent a clear signal that tightening is on the way. The statement reads: *"Economic activity is stronger and supply shocks are continuing. The Executive Board therefore considers that the key policy rate needs to be raised more than envisaged in the June projections in order for inflation to stabilise around 2 per cent. If the outlook for inflation and economic activity remains unchanged, rate rises are expected to begin before the end of this year."*

Governor Erik Thedéen confirmed: *"If the outlook for inflation and growth remains the same, the key interest rate will rise before the end of the year."* The markets are pricing in almost four rate rises (around 100 basis points) by next spring.

The Riksbank will publish the minutes of the monetary policy meeting held on 23 September on 30 September, and the next policy meeting is scheduled for 4 November. The probability of a rate rise on that date is priced in at around ~60 per cent.

SNB – Rates held steady at 0%

The Swiss National Bank has kept the key interest rate at 0 per cent, confirming its status as the exception amongst central banks. Governor Martin Schlegel emphasised that *"our new conditional inflation forecast indicates that medium-term inflationary pressure has risen only slightly compared with June"* and that the forecast remains *"within the range consistent with price stability over the entire forecast horizon"*, i.e. between 0% and 2%.

Swiss inflation rose to 0.8 per cent year-on-year in August, driven by oil product prices, but the SNB forecasts average inflation of 0.7 per cent for 2026 and 0.8 per cent for both 2027 and 2028. Swiss GDP is expected to grow by between 1.5% and 2% in 2026.

The franc weakened following the decision, with EUR/CHF climbing back above 0.94 and USD/CHF reaching 0.8283, its highest level since May 2025. However, the money markets are pricing in three or four rate rises by the SNB over the coming year.

Central Bank	Decision	Current rate	Outlook
Norges Bank	Hike +25bp	4.50%	Ready to raise further
Riksbank	Unchanged	1.75%	Hike expected by the end of 2026
SNB	Unchanged	0.00%	Inflation under control, ready to act if necessary

In summary, the three central banks have adopted different approaches based on their respective domestic conditions: Norway has opted for immediate action given persistently above-target inflation; Sweden has opted for a tactical pause with a clear tightening bias; Switzerland, benefiting from the franc's status as a safe-haven currency and structurally low inflation, has confirmed its exceptional position within the European monetary landscape by keeping the rate at zero.

US dollar: driven by a hawkish Fed and record yields

The dominant theme for the coming week remains the **Federal Reserve's cycle of rate rises**. The Fed raised rates last week for the first time since 2023 to combat inflation that has persistently exceeded the 2 per cent target. Governor Michael Barr stated that further rate rises "will likely be necessary".

The US Composite Flash PMI for September jumped to 58.4, the strongest reading in over five years, signalling not only resilience but a possible **overheating** of the economy. The 10-year Treasury yield rose by 14 basis points in a single session to 5.108 per cent, whilst the 30-year yield reached 5.402 per cent. The auction of \$70 billion worth of five-year bonds saw extremely weak demand, with the bid-to-cover ratio at a four-year low.

The interest rate differential in favour of the dollar remains the main driver of the forex market. With an ~83% probability of a further rate hike at the 27–28 October meeting, the greenback could remain strong against all major currencies.

Key events for the dollar:

During the week of 28 September – 2 October, a number of speeches by Fed officials are scheduled: Chicago Fed President **Austan Goolsbee** (29 September), St Louis Fed President **Alberto Musalem** (29 September), New York Fed President **John Williams** (29 September and 1 October), Richmond Fed President **Thomas Barkin** (30 September – 1 October), Dallas Fed President **Lorie Logan** (1–2 October), and Kansas City Fed President **Jeffrey Schmid** (1 October).

The euro: between cyclical weakness and energy-driven inflation

The euro remains under pressure despite the ECB also having raised rates in September. President Lagarde has dampened expectations of aggressive rate hikes, stating that a "measured response" would be sufficient to contain inflation.

With the yield on the 10-year German Bund up by 10 basis points and the French yield at an 18-year high, the European foreign exchange market remains sensitive to ECB rhetoric and energy data.

Key events for the euro:

- **29 September:** Bundesbank conference featuring President Nagel and ECB board member Cipollone, and a speech by Banco de España Governor Escrivá.
- **30 September:** Speech by Isabel Schnabel of the ECB.
- **1 October:** Speech by ECB President **Christine Lagarde** at the ESRB's annual conference; remarks by Catherine Mann of the BoE.
- **2 October:** Speeches by ECB Vice-President Vujčić and Olli Rehn at the ESRB conference.

Japanese yen: between the BoJ's dovish rate hike and the risk of intervention

The yen is this week's 'one to watch'. The BoJ raised rates to 1.25 per cent – the highest level in 31 years – but two dissenting voices on the board gave the decision a *dovish* tone, triggering a sell-off in the yen that pushed USD/JPY above 158.

Japanese markets reopen at the start of the week following a three-day bank holiday, and news that the authorities have carried out exchange rate checks keeps the risk of intervention alive. The 160 mark remains the critical threshold: reaching that level could trigger direct intervention by the Ministry of Finance, as happened in July 2025.

Key events for the yen:

- **27 September (Sunday):** Publication of the BoJ minutes from the 30–31 July meeting.
- **30 September:** Publication of the BoJ's 'Summary of Opinions' from the 17–18 September meeting – a document that will reveal the extent of internal dissent and the conditions for further rate rises.

Sterling: under pressure but with a busy BoE schedule

GBP/USD has fallen below the 1.33 mark and dropped to its lowest level since late July at 1.3220. The Bank of England kept rates unchanged at its September meeting, opting for patience in the face of inflation driven by the war in the Middle East.

Key events for the pound:

- **28 September:** Speech by Deputy Governor **Dave Ramsden** on *quantitative tightening*.
- **29 September:** Speech by MPC member **Alan Taylor** on inflation.
- **1 October:** Speeches by **Catherine Mann** and Governor **Andrew Bailey** at the 'Future of Money' conference.

Geopolitical factors and commodities: the Iran risk and the Trump-Xi summit

Two geopolitical factors will dominate market sentiment:

1. **US-Iran conflict:** Iranian President Pezeshkian told the UN General Assembly that Tehran would never surrender, after Trump threatened to “annihilate” Iran. Brent and WTI rebounded by 4.3 per cent to USD 103.50 per barrel and 2.3 per cent to USD 92.60 per barrel respectively, ending five consecutive sessions of declines.
2. **Trump-Xi summit:** Chinese President Xi Jinping has arrived in Washington for a summit with Trump. Treasury Secretary Bessent has indicated that the US is open to extending the trade truce, which is due to expire on 10 November, or to considering a broader agreement.

A potential trade deal could reduce risk aversion and support emerging market currencies and commodity currencies (AUD, NZD, CAD), whilst a failure of the summit could further strengthen the dollar as a safe-haven currency.

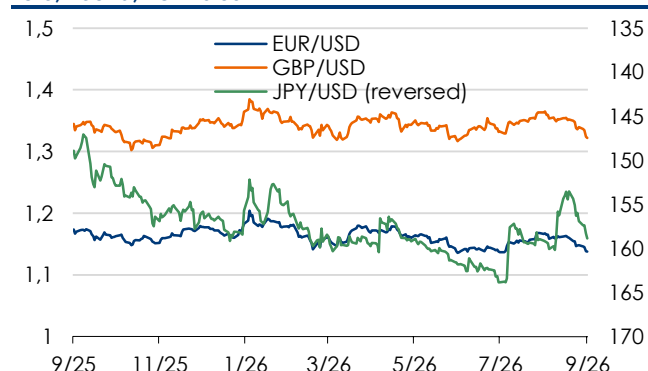
Key events calendar: 28 September – 2 October

Date	Event	Expected impact
27 Sep	Minutes of the BoJ meeting on 30–31 July	JPY
28 September	Speech by BoE Deputy Governor Ramsden (QT)	GBP
29 September	Speech by BoE's Taylor (inflation)	GBP
29 September	Fed Speeches: Goolsbee, Musalem, Williams	USD
29 September	Bank of Canada Deputy Governor Gravelle speaks to Bloomberg	CAD
30 September	BoJ Summary of Opinions (17–18 September)	JPY
30 September	Riksbank minutes; virtual ECB meeting	EUR, SEK
30 September	ECB speech by Schnabel	EUR
1 Oct	Lagarde (ECB) speech at the ESRB conference	EUR
1 Oct	Speeches by BoE's Mann and Governor Bailey	GBP
1 Oct	Fed Speeches: Williams, Logan, Barkin, Schmid, Collins	USD
1 Oct	Deputy Governor of the Bank of Canada, Rogers	CAD
2 Oct	ECB speeches: Vujčić, Rehn, Sleijpen, Cipollone	EUR
2 Oct	Fed's Logan on migration and macroeconomic implications	USD

The week of 28 September – 2 October will be driven by three main factors:

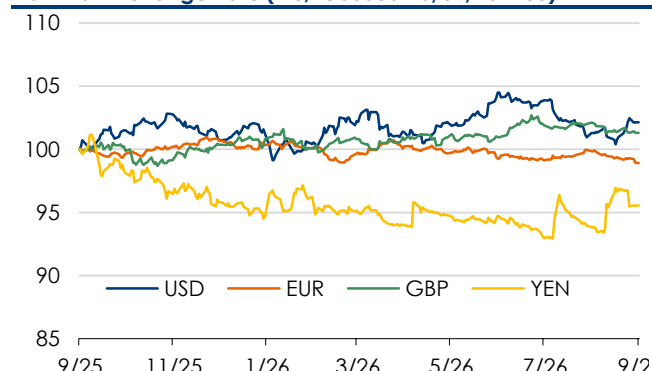
- **The US interest rate differential** remains the dominant driver, with the dollar supported by the Fed's hawkish rhetoric and Treasury yields at their highest since 2007. Any data or speech reinforcing expectations of a rate rise in October could push EUR/USD towards the 1.13 level and USD/JPY towards the critical 160 threshold.
- **Geopolitical risk** linked to the Iran-US conflict and the Trump-Xi summit is adding a volatility premium: a deterioration in relations with Tehran would push oil prices even higher, fuelling inflationary fears and bolstering the dollar; progress in US-China trade negotiations, on the other hand, could ease the pressure on commodity currencies.
- **Statements from central banks** – in particular the BoJ's Summary of Opinions (30 September), Lagarde's speech (1 October) and multiple remarks by Fed officials – will provide crucial guidance on the direction of global monetary policy and, consequently, on exchange rate dynamics in the coming weeks.

Euro, Pound, Yen vs USD



Source: WS Datastream

Nominal Exchange Rate (BIS, rebased 25/09/25=100)

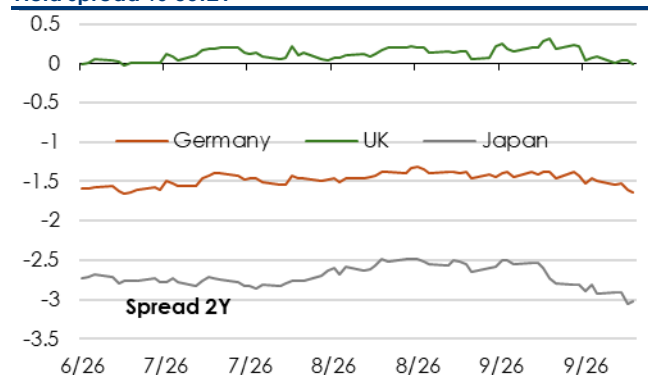


Source: WS Datastream

Forex Forecasts

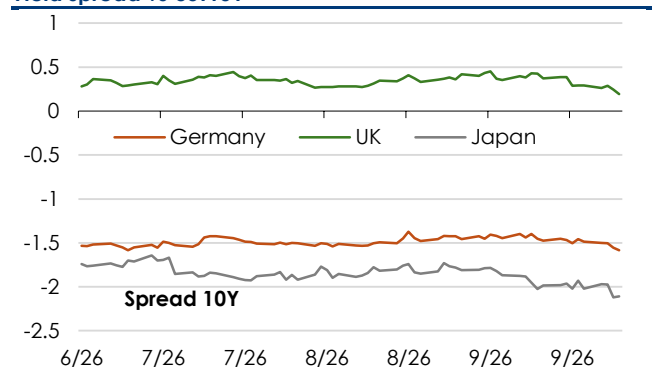
	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028	2026	2027
WD EUR/USD	1.1459	1.1277	1.1294	1.1462	1.1581	1.1568	1.1648	1.1598	1.1269
WD EUR/GBP	0.8563	0.8684	0.883	0.8866	0.8911	0.8923	0.894	0.8637	0.8792
WD EUR/NOK	11.0345	10.9309	10.8257	10.726	10.6706	10.6158	10.5509	11.1277	10.8555
WD USD/CAD	1.4066	1.4319	1.433	1.4105	1.3954	1.3934	1.382	1.3874	1.4356
WD USD/JPY	159.7091	159.7902	159.5413	155.7251	149.7483	145.6032	143.5761	158.6287	160.03
WD EUR/CHF	0.9284	0.9243	0.926	0.9219	0.9209	0.9193	0.9183	0.9214	0.926
WD EUR/SEK	10.9652	10.8592	10.7283	10.5072	10.3504	10.2194	10.1496	10.849	10.7873
WD USD/CHF	0.81	0.8196	0.82	0.8043	0.7952	0.7947	0.7884	0.7945	0.8218
WD AUD/USD	0.7053	0.7047	0.7049	0.7142	0.7185	0.7147	0.715	0.7035	0.7037
WD GBP/USD	1.3386	1.2986	1.279	1.2927	1.2997	1.2964	1.3029	1.3431	1.2817
WD NZD/USD	0.587	0.5878	0.5993	0.6186	0.6299	0.6314	0.6346	0.5871	0.594
WD EUR/AUD	1.6254	1.6004	1.6022	1.6048	1.6119	1.6186	1.629	1.6498	1.6013
WD EUR/CAD	1.6122	1.6148	1.6185	1.6166	1.616	1.6119	1.6096	1.609	1.6177
WD EUR/JPY	183.0808	180.1947	180.1875	178.4847	173.4246	168.4352	167.2297	183.9769	180.3309
WD EUR/NZD	1.9529	1.9185	1.8846	1.853	1.8385	1.832	1.8353	1.9763	1.8971
WD EUR/HKD	8.9745	8.8153	8.8032	8.9229	9.0147	9.0045	9.0664	9.077	8.7919
WD EUR/CNY	7.7795	7.7989	7.7989	7.7683	7.75	7.7109	7.7	7.9331	7.8021
WD EUR/HUF	361.0493	361.293	361.3416	358.624	355.8708	352.9359	351.8473	368.6642	361.6245

Yield spread vs UST2Y



Source: WS Datastream

Yield spread vs UST10Y



Source: WS Datastream

Appendix

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