FX SPECIAL REPORT

EUR/USD: An In-Depth Assessment

rates, oil, France

The euro has fallen to its lowest level against the dollar since May 2025, after four weekly declines. This report examines the drivers of the move, from monetary policy and energy to French fiscal stress, and tests them against the data.

Global Markets Research · FX Strategy Desk Prepared by ANDRA MARKETS

-4.8% YTD, -6.6% from Jan

Coverage summary. EUR/USD fixed at 1.1186 on 8 October, 4.8 per cent lower than at the end of 2025 and 6.6 per cent below its January high of 1.1974, after touching about 1.116 in Asian trading on 5 October, its weakest level since May 2025. Three forces explain most of the decline: a Federal Reserve that has returned to raising rates faster than the European Central Bank, an energy shock linked to the conflict with Iran that hurts the euro area more than the United States, and renewed fiscal stress in France. Our models suggest the euro is now close to, or slightly below, the level justified by interest-rate differentials; positioning and options show investors leaning towards further weakness. We see a range of 1.10 to 1.14 in the coming weeks, with the risk skewed lower until the French budget and the US elections pass.

EUR/USD, 8 Oct	US–EA 2y spread	Euro area HICP, Sep	OAT–Bund 10y
1.1186	**+1.77pp**	**3.8%**	**~134bp**
−4.8% YTD	*+41bp since end-2025*	*core 2.5%*	*peak ~152bp, w/e 2 Oct*

Exhibit A. EUR/USD at a glance

Indicator	Level	Context
Spot (ECB reference, 8 Oct)	1.1186	end-2025: 1.1750
2026 high / low (ECB fix)	1.1974 / 1.1177	28 Jan / 7 Oct
ECB deposit rate	2.50%	hikes 11 Jun and 10 Sep
Fed funds target	3.75 to 4.00%	hike 16 Sep
2-year: US / Germany	4.79% / 3.06%	spread ~173bp (9 Oct)
10-year: US / Germany	5.25% / 3.46%	spread ~179bp (9 Oct)
Inflation: euro area / US	3.8% (Sep) / 3.4% (Aug)	core 2.5% / 2.4%
Realised vol 1m / 3m	5.2% / 4.8%	10-year median 6.6%
3m implied vol / 1m 25d risk reversal	6.45% / −1.24	1 Oct / 7 Oct
CFTC net speculative position	−63k	3.5th pct of 5 years

gap: 1.7 to 1.8pp

options: puts bid

Sources: ECB; Federal Reserve; Trading Economics (yields, 9 October 2026); Eurostat flash HICP via XTB; BLS; Andra Markets calculations; Reuters via TradersUnion (3m implied vol and 3m risk reversal) and FXStreet (1m risk reversal, CFTC positioning, 8 October 2026). Single-source figures are indicated in the text.

1.0 Executive Summary

Key takeaways

Policy divergence has widened. Both central banks are raising rates, but the Fed is ahead: its range of 3.75 to 4.00 per cent compares with the ECB's 2.50 per cent deposit rate, and the two-year yield gap between the United States and the euro area has widened by about 41 basis points this year on our measure. Our regression links each percentage point of that spread to about 10.7 cents on EUR/USD over two years.

Fed > ECB: spread +41bp

Energy is the second driver. WTI crude has risen from about US$57 at the end of 2025 to more than US$90. In 2026, the rolling 26-week correlation between EUR/USD and oil reached −0.65, far stronger than its average of about −0.25 in 2024 and 2025. Higher oil prices worsen the euro area's terms of trade and lift its inflation without improving its growth.

oil: the 2026 driver

Fiscal risk has returned. The spread between French and German ten-year yields reached about 140 to 152 basis points in the week to 2 October, the widest since 2011-12, as France presented a 2027 budget with a deficit target of 5.0 per cent of GDP. A snap election in Spain on 29 November adds to the political calendar.

France: OAT-Bund 152bp

Valuation is no longer stretched. Depending on the window and the model, our rate-based fair value ranges from about 1.10 to 1.14, against a spot of 1.1186; the euro is cheap relative to its one-year history (z-score -2.9, RSI 27), but on our data such readings have not reliably produced rebounds. We expect a range of 1.10 to 1.14, with downside risks until the French budget vote and the 28 to 29 October central bank meetings.

fair value 1.11 to 1.14

2.0 The Year So Far

From 1.20 to 1.12

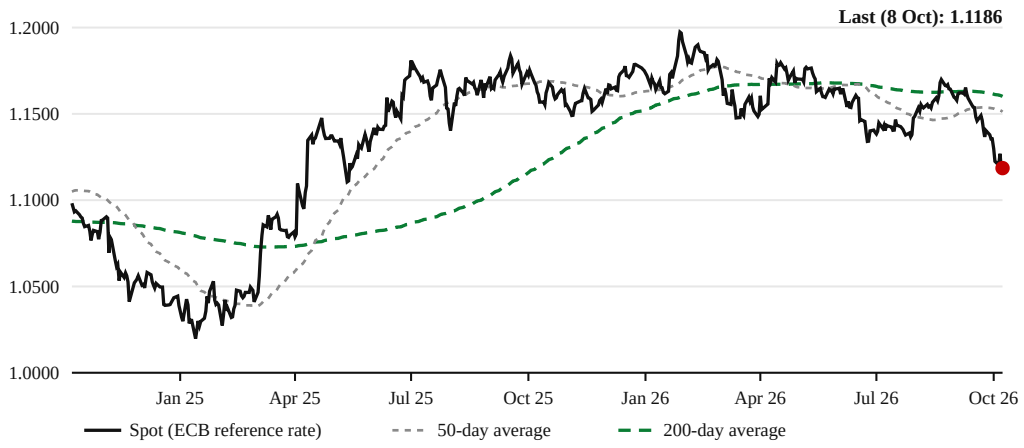
The euro started 2026 near 1.175 and rose to 1.1974 on 28 January, its highest level since June 2021, extending the 13 per cent rally of 2025. The turning point came on 28 February, when US and Israeli strikes on Iran began; with Brent above US$100 in early March, EUR/USD fell to about 1.153 and option markets turned to protect against further euro weakness. A ceasefire in April lifted the euro back to 1.173, and the largest daily gain of the year (+1.28 per cent) came on 8 April. From June, the drivers turned negative again: the ECB's first increase on 11 June was outweighed by a hawkish Fed, producing the largest daily fall of the year (−1.13 per cent) on 18 June. After a recovery in August, the euro fell for four consecutive weeks from mid-September, as the Fed raised rates, euro area inflation surprised higher and French bond spreads widened.

Jan: 1.1974 high

Mar–Jul: oil shock

Sep–Oct: Fed + France

Exhibit 1. EUR/USD over two years, with 50-day and 200-day moving averages



Jan: 1.1974

below both averages

Source: ECB euro reference rates; Andra Markets calculations.

Exhibit B. Main episodes in EUR/USD in 2026

Date	Event	EUR/USD
27 to 28 Jan	Peak; highest since June 2021	~1.20
28 Feb to 3 Mar	US-Israeli strikes on Iran; Brent above $100	to 1.1528
7 to 8 Apr	Ceasefire; largest daily gain of the year	+1.28% (8 Apr)
11 to 18 Jun	ECB hikes; hawkish Fed; largest daily fall	−1.13% (18 Jun)
20 to 28 Jul	US-Iran memorandum collapses	1.1367 (28 Jul)
Aug to 9 Sep	Recovery; ECB hikes again 10 Sep	1.1652 (9 Sep)
16 Sep to 8 Oct	Fed hike; HICP 3.8%; French spreads widen	1.1186 (8 Oct)

Sources: ECB reference rates; ValutaFX; Investing.com; MWF Macro (Iran timeline, single source); Andra Markets calculations of daily changes.

oil + Fed = euro down

3.0 Monetary Policy Divergence

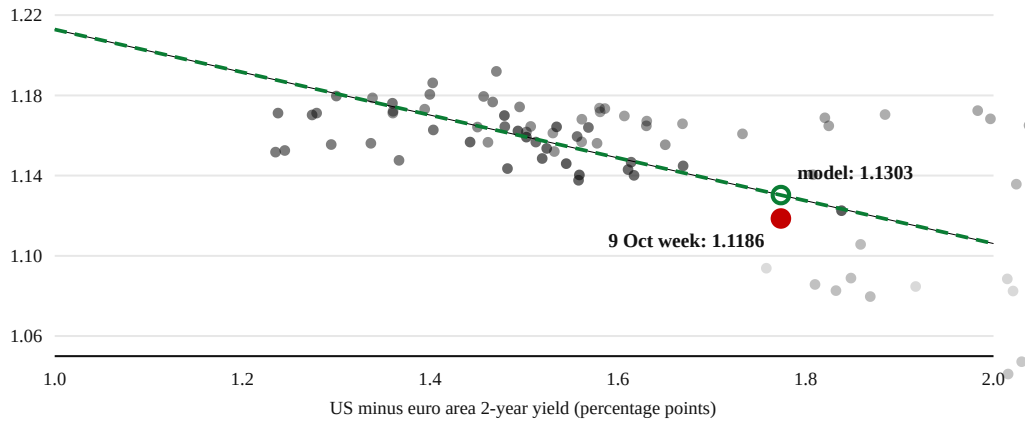
Two hiking central banks

The ECB raised its deposit rate on 11 June, its first increase since 2023, and again on 10 September, to 2.50 per cent. Its September projections show inflation of 3.0 per cent this year and 2.5 per cent in 2027, revised up, with growth of 0.9 per cent. Euro area inflation then rose to 3.8 per cent in September, with energy prices up almost 19 per cent on a year earlier. Yet President Lagarde's remarks in late September were read as dovish, setting a high bar for an increase on 29 October, according to Ebury. Markets price the deposit rate at about 2.72 per cent by December. In the United States, the Fed raised its range to 3.75 to 4.00 per cent on 16 September, Chair Kevin Warsh said that inflation "is too high and has been for too long", and the minutes published on 7 October show that most officials expect another increase this year.

ECB 2.50%, Fed 3.75–4.00%

Lagarde: Oct hike bar "very high"

Exhibit 2. EUR/USD against the US–euro area two-year yield spread, weekly, last two years



wider spread = weaker euro

spot ~1% below model

Source: Andra Markets calculation from ECB reference rates, the ECB AAA euro area yield curve (2-year) and FRED (US 2-year Treasury). Darker points are more recent. Dashed line: least-squares fit over two years.

R^2 0.54 over 2 years

The relationship between the euro and the yield spread is clear over longer windows. Using weekly data over two years, a one-point increase in the spread is associated with a fall of about 10.7 cents in EUR/USD, and the spread explains about half of the variation in the exchange rate. Over the past year the link has been weaker on a week-to-week basis, because energy and political risk have played a larger role, but the direction is consistent: the spread widened from 1.36 points at the end of 2025 to 1.77 points on 8 October, on the ECB's euro area curve.

4.0 Fair Value

Close to the models

no strong mispricing

Five simple models place fair value between 1.106 and 1.142, with spot at 1.1186 in the middle. The models that use only the past year suggest the euro is about 2 per cent cheap, because during most of that year the euro traded above what rates alone justified; longer windows and models that include oil suggest it is roughly fairly valued. The conclusion is that the recent fall has removed the euro's earlier premium rather than created a large discount. On longer-term measures, purchasing-power parity estimates are well above the current rate (BNP Paribas cited about 1.26 to 1.41 in 2025, an older estimate), which matters for multi-year investors but rarely for the next few months.

Exhibit C. Rate-based fair value estimates for EUR/USD

Model (daily data)	Fair value	Spot vs model	R^2
2-year spread, 1-year window	1.1422	−2.1%	0.29
2-year spread, 2-year window	1.1298	−1.0%	0.54
10-year spread, 2-year window	1.1064	+1.1%	0.66
2-year spread and oil, 2-year window	1.1108	+0.7%	0.60
2-year spread, 3-year window	1.1156	+0.3%	0.46

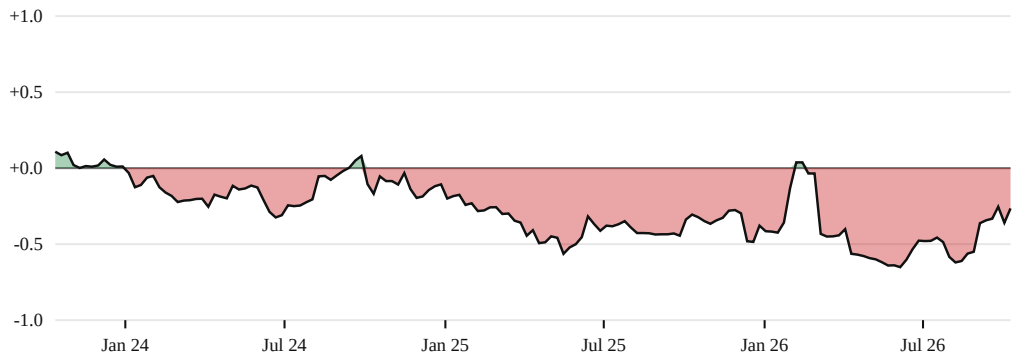
range: 1.11 to 1.14

Source: Andra Markets regressions of EUR/USD on the US minus euro area AAA yield spread (and the log of WTI where stated), daily data to 8 October 2026. Fair value is the model value at the latest spread. Illustrative; models omit risk premia and flows.

5.0 Energy and Terms of Trade

The Iran shock

Exhibit 3. Rolling 26-week correlation of weekly changes: EUR/USD and WTI crude oil



2026: down to −0.65

Source: Andra Markets calculation from ECB reference rates and FRED (WTI). Red areas: the euro falls when oil rises.

euro = energy importer

The euro area imports most of its energy, so higher oil and gas prices transfer income abroad, weaken its trade balance and raise inflation in a way that monetary policy cannot fully offset. The ECB's account of its September meeting noted oil at about US$97 and gas at about €73 per megawatt hour. On FRED data, WTI rose from US$57 at the end of 2025 to about US$96 in early October. The rolling correlation in Exhibit 3 shows that the euro's sensitivity to oil peaked in 2026; this is why the April ceasefire produced the euro's best day of the year, why oil-easing news such as President Trump's statement that the US would not attack Iran before the midterm elections tends to help it, and why escalation remains its main external risk.

WTI: $57 to $96

6.0 Fiscal and Political Risk

France at the centre

OAT 10y hit 5%

France presented a 2027 budget on 1 October with about €54 billion of savings and extra revenue, a deficit of 5.4 per cent of GDP this year and a target of 5.0 per cent in 2027, and public debt of 119 per cent of GDP. Its minority government faces parliamentary debate from 13 October, with a presidential election due in spring 2027. In the week to 2 October, the ten-year French yield reached 5 per cent and the spread over Germany widened by about 34 basis points, the largest weekly increase in 17 years according to Reuters. France now yields more than Italy, whose spread is about 107 basis points. Spain's prime minister called a snap election for 29 November. Germany, by contrast, is expanding spending: its 2027 draft budget includes €117.5 billion of investment and defence spending rising towards 3.5 per cent of GDP by 2029, which supports euro area growth but also adds to bond supply. For the euro, French spreads have become a second interest-rate differential to watch.

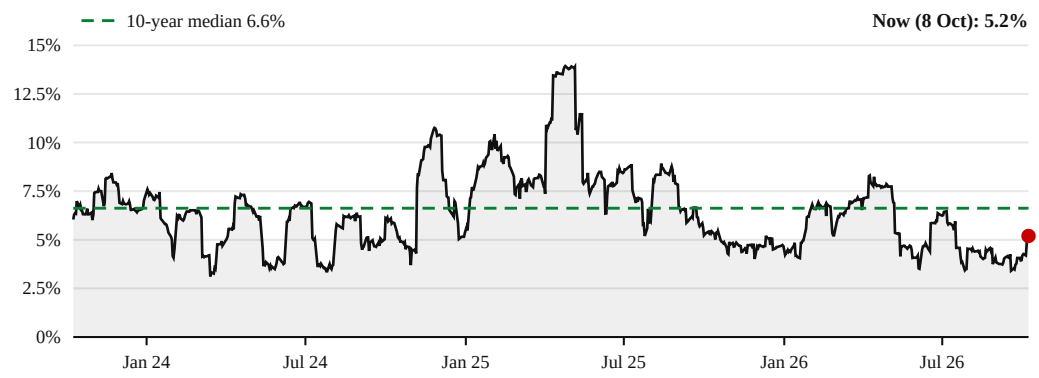
Spain votes 29 Nov

Germany: €117bn investment

7.0 Volatility and Options

Calm spot, nervous options

Exhibit 4. EUR/USD: one-month realised volatility, annualised



Source: Andra Markets calculation from ECB reference rates (21-day standard deviation of daily log returns, annualised).

below the 10y median

realised 5.2% vs implied 6.45%

Realised volatility is moderate: 5.2 per cent over one month, in the 24th percentile of the past ten years, and 4.8 per cent over three months. Option markets price more: three-month implied volatility was 6.45 per cent on 1 October, its highest since April, according to Reuters data, and one-month 25-delta risk reversals were −1.24 on 7 October, around the 10th percentile of the past five years according to FXStreet. In other words, investors are paying more for protection against a weaker euro than against a stronger one. The distribution of daily changes over the past year is close to normal (skew +0.24, excess kurtosis 1.2), with a one-day 95 per cent value at risk of -0.59 per cent.

risk reversal: 10th pct

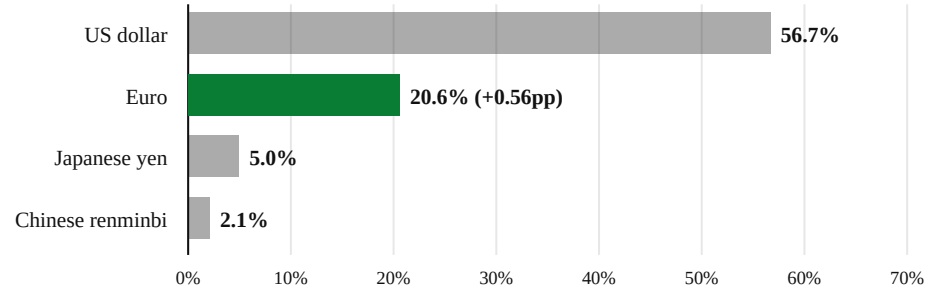
8.0 Flows and Positioning

Short-term bearish, long-term supportive

CFTC: −63k vs +180k in Feb

Speculative positioning has turned sharply: from a net long of about 180,000 contracts in February, CFTC data show a net short of about 63,000 contracts in the week to 29 September according to FXStreet, in the 3.5th percentile of the past five years (other sources, using a different definition, report about 39,000). Short-term positioning therefore already reflects much of the bearish news. Longer-term flows are more supportive. The euro area runs a current account surplus of €282 billion over twelve months (1.7 per cent of GDP), while the United States had a deficit of US$246 billion in the second quarter alone (3.0 per cent of GDP). Central banks also continued to add euros: the IMF reports that the euro's share of global reserves rose to 20.6 per cent in the second quarter, driven by active purchases.

Exhibit 5. Currency composition of global foreign exchange reserves, Q2 2026



euro share up

Source: IMF COFER data brief (30 September 2026). Change shown for the euro is versus Q1 2026.

9.0 Quantitative Signals

Oversold, but no reliable rebound

z = −2.9: very stretched

On standard quantitative measures, the euro is stretched to the downside: it is 2.8 per cent below its 50-day average and 3.6 per cent below its 200-day, with a z-score of -2.9 and an RSI of 27. Mean reversion would suggest a bounce, but the historical evidence is weak: on our data since 2014, after the 15 non-overlapping months that began with a z-score below −2, EUR/USD fell by 0.2 per cent on average over the following month and rose in only 60 per cent of cases. Carry continues to favour the dollar by about 1.7 points on two-year yields, and the fourth-quarter seasonal pattern is neutral (up in six of the last twelve years).

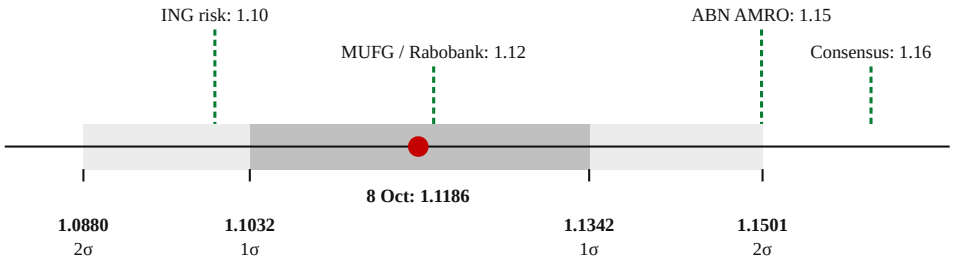
history: no clear bounce

Exhibit D. Quantitative signal scorecard for EUR/USD

Signal	Reading	Implication for the pair
Trend	-2.8% vs 50-day, -3.6% vs 200-day	supports lower
Momentum (12 minus 1 month)	-0.1%	neutral
Mean reversion	z-score -2.9; RSI 27	supports higher
Carry (2-year yield gap)	-1.73 pp in favour of selling the pair	supports lower
Seasonality (Q4, 2014 to 2025)	average +0.1%, up in 6 of 12	neutral
Composite score	**-1 out of ±5**	**no clear edge**

Andra Markets rules: trend is positive if the pair is above both averages and negative if below both; momentum uses a ±1% band; mean reversion flags a z-score beyond ±2 or RSI beyond 30/70; carry uses a ±0.5 point band; seasonality needs at least 8 of 12 years in one direction. Signals are descriptive, not trading advice.

Exhibit 6. EUR/USD: statistical one-month range, with published forecasts



consensus above spot

Source: Andra Markets calculation using three-month realised volatility of 4.8% and normal returns. Forecast markers: MUFG (1 October 2026), Rabobank (4 October), ABN AMRO (7 October), ING (7 October), Bloomberg consensus via MUFG (30 September); year-end targets except Rabobank (12 months).

10.0 Forecasts

Banks have been cutting

Forecasts have moved down with the market. The most recent ones, from MUFG and Rabobank, are at 1.12, close to spot, and ING has flagged a risk of 1.10, while the Bloomberg consensus of 1.16 at the end of September and the summer forecasts of BNP Paribas still imply a recovery. Most forecasters still expect the euro to be higher in 2027 than today, reflecting the

consensus 1.16: too high?

expectation that the Fed will stop raising rates before the ECB does and that energy prices will ease.

Exhibit E. Published EUR/USD forecasts

Institution	End-2026	Later	Date
MUFG	1.12	1.18 (Q3 2027)	1 Oct 2026
Rabobank	1.12 (12 months)	n/a	4 Oct 2026
ABN AMRO	1.15	n/a	7 Oct 2026
ING	risk of 1.10	n/a	7 Oct 2026
Bloomberg consensus	1.16	1.18 (Q3 2027)	~30 Sep 2026
BNP Paribas	1.16	1.20 (Q4 2027)	27 Jul 2026
Goldman Sachs	1.12 (6 to 12 months)	n/a	7 Jul 2026
JPMorgan	1.13	n/a	early Jul 2026

Sources: MUFG Research; exchangerates.org.uk (Rabobank, ABN AMRO); Pound Sterling Live (ING, Goldman Sachs); FXStreet (BNP Paribas); JPMorgan mid-year outlook. Forecasts dated before September may not reflect the latest moves.

newest = lowest

11.0 Scenarios

Three paths to year-end

asymmetric: down faster

The base case keeps the euro within its fair-value band. The two alternative scenarios are not symmetrical: a negative shock from France or from energy would come with wider spreads and higher volatility, and could move the pair quickly, while a positive scenario depends on a sequence of data and decisions over several weeks. Positioning partly offsets this asymmetry, because a market that is already short the euro can react strongly to good news.

Exhibit F. EUR/USD scenarios to year-end (illustrative)

Scenario	Assumptions	Indicative range
Base	Fed hikes in Dec, ECB hikes once more by Dec; French budget passes; oil $85 to 100	1.10 to 1.14
Euro-negative	French budget fails or rating cut; Middle East escalation; oil above $110	1.07 to 1.10
Euro-positive	US data weaken and the Fed pauses; ECB hikes on 29 Oct; de-escalation with Iran	1.14 to 1.17

Andra Markets illustrative scenarios based on the fair value models, the volatility bands and the drivers discussed in this report; not a forecast.

our base case

tail: French politics

12.0 Calendar and Monitoring Points

Six weeks that matter

watch: spread, oil, OAT

Three numbers summarise the outlook: the two-year yield spread, now about 1.75 points; the price of oil; and the French-German spread. A narrower rate gap, lower oil and calmer French bonds would be needed for a sustained euro recovery; any two of the three moving the wrong way would keep the pressure on.

verdict: fairly valued after the fall, but the risks still point down. range 1.10 to 1.14

Exhibit G. Key events for EUR/USD

Date	Event	Why it matters
13 Oct	French budget debate opens	OAT-Bund spread
14 Oct	US CPI (September)	December Fed hike odds
16 Oct	Euro area final HICP	confirms 3.8%?
28 Oct	FOMC decision	pause or signal for December
29 Oct	ECB decision	third hike or pause
3 Nov	US midterm elections	fiscal path, Iran policy
29 Nov	Spanish general election	periphery spreads
8 to 9 Dec / 17 Dec	FOMC (with projections) / ECB	year-end policy gap

28 to 29 Oct: key

Sources: Federal Reserve and ECB calendars; Vantage Markets; Times of Israel (Spanish election); Euronews and France24 (French budget).

Methodology and Source Notes

Method. This report combines quantitative analysis of ECB reference rates (to 8 October 2026), ECB euro area AAA yield curves and FRED data with published research and news reports. Regressions, correlations, fair values, z-score studies and ranges are Andra Markets calculations; scenarios are illustrative. Where only one source was found for a figure (for example, option risk reversals and the Iran timeline), this is stated. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. ECB (reference rates, yield curves, press releases of 10 September 2026, account of 8 October 2026, balance of payments of 18 September 2026); Federal Reserve; FRED; Trading Economics (yields, 9 October 2026); Eurostat via XTB; FXStreet and Ebury (5 and 8 October 2026); Vantage Markets (8 October 2026); Euronews and France24 (French budget, October 2026); Brussels Signal; Reuters via Investing.com (German budget); IMF COFER (30 September 2026); BEA (24 September 2026); Kiplinger, Advisor Perspectives and Scotsman Guide (Fed); TradersUnion/Reuters (options); MUFG Research; exchangerates.org.uk; Pound Sterling Live; BNP Paribas Wealth Management (2025); MWF Macro; Times of Israel.

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