

FX & EM Weekly Thoughts

EM FX resilience put to the test

A softer NFP has eased immediate pressure, but Fed tightening and broader risk premium decompression continue to favour the dollar. With carry trades unwinding and positioning still adjusting, EM and select G10 FX remain vulnerable.

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Big Picture

Fed lift-off triggered a carry unwind

The overwhelming consensus has been to be long EM FX carry in a world of low FX vol and a weak USD. This narrative proved remarkably resilient to the large global rates repricing that followed the June bottom in oil, possibly because [relatively soft US data over the summer](#) kept the weak USD story alive. Fed lift-off has done what expectations of a hawkish Fed could not, and the market appears to be in the midst of a carry unwind ([Figure 1](#)). Weaker risk conditions last week amplified this process further, evidenced in the widening in OAT spreads and US credit spreads.

[Figure 2](#) shows the changes in FX versus 10y EM rates since the end of June until the peak in the carry strategy in early September (light blue diamonds) and until today (dark blue dots). FX moves across EM were initially fairly contained despite the sizable rise in back-end rates. This relationship shifted in the past month, with FX starting to catch up to the rates move.

★ SIGNATURE

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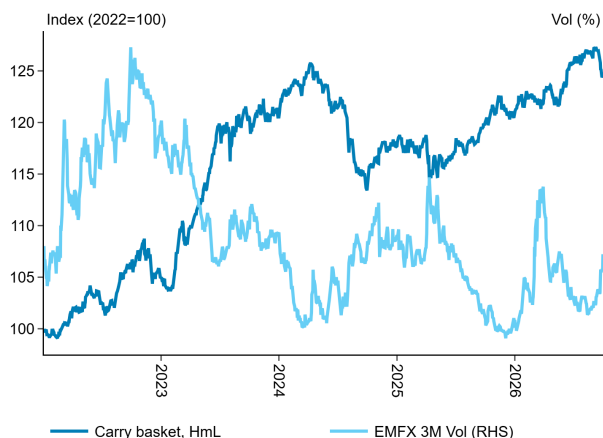
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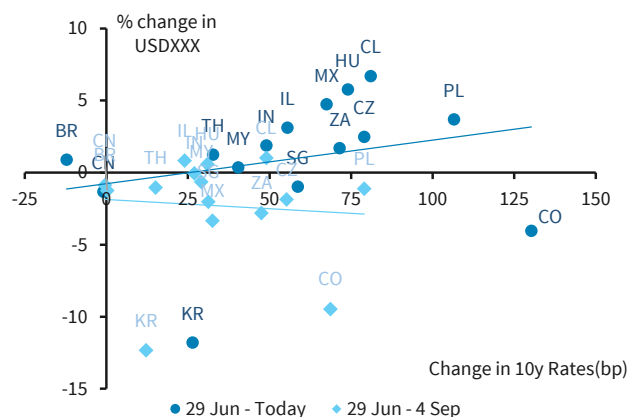
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Completed: 02-Oct-26, 21:02 GMT Released: 04-Oct-26, 09:00 GMT Restricted - External

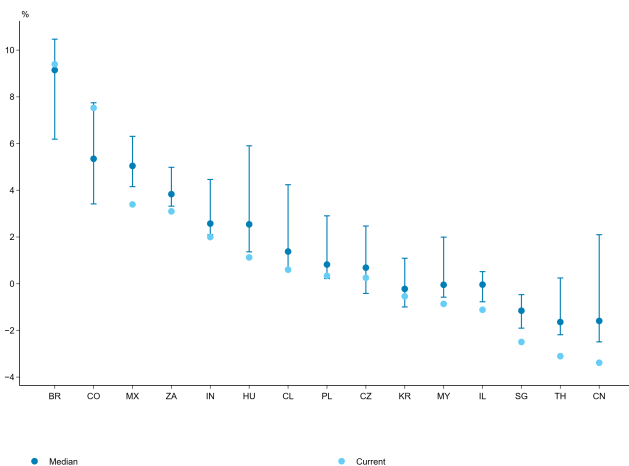
FIGURE 1. EM carry unwound into the first Fed hike...

Note: Carry basket goes long the top 5 currencies sorted by carry-to-vol and short the bottom 5 currencies, with monthly rebalancing.
Source: Bloomberg, Barclays research

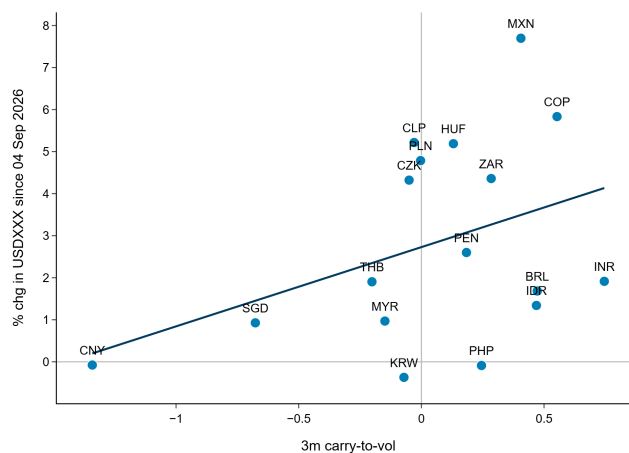
FIGURE 2. ...with currencies catching up to the sizable rise in back-end rates

Source: Bloomberg, Barclays Research

While tight rate differentials were blamed for the pressure in currencies such as the MXN, spreads are tight across much of EM (Figure 3). This has been the case for some time, given that the level of US rates has stayed high, and [spreads across the board compressed even further](#) recently with the fast rise in US real yields. We think Fed lift-off drove a reassessment of crowded carry trades, as the US economy has remained resilient and rate hikes are warranted beyond just higher oil prices. Positioning is likely the main culprit behind the moves, in terms of both speed and magnitude, among the higher carry currencies (Figure 4).

FIGURE 3. 1y1y spreads to US rates are tight across EM, not just for the biggest movers

Source: Bloomberg, Barclays research

FIGURE 4. Higher FX carry has taken a bigger hit, likely amplified by positioning

Source: Bloomberg, Barclays Research

NFP sets the stage for a relief rally, but we think EM FX is still vulnerable

Friday's softer NFP print is a relief for risk, and the USD should take a breather following the sharp market repricing of the Fed. That said, a look at past carry unwinds, along with past episodes of Fed tightening, make us think that the EM FX move overall still has legs (even if it takes some breathers along the way).

Figure 5 identifies relevant episodes in the post-pandemic period: the 2022 Fed acceleration, the higher-for-longer Fed repricing in 2023, the carry unwind in 2024 triggered by the Mexican presidential election and yen carry unwind, and the recent Fed move. We include "liberation day" and the beginning of the Middle East conflict to include fast FX moves as well. We show how much the high carry and low carry FX baskets sold off in spot terms in each period, as well as the change in EM FX overall and the duration of each episode we identify.

The table shows that the high carry FX basket sold off c.5% when the move was Fed-driven, while it moved closer to 4% in other episodes. High carry underperformed low carry mainly during the pure carry unwind episode and the geopolitical events. Episodes associated with tighter FCIs that lasted longer came with weaker EM FX overall. Typically, in these cases, the first leg of the sell-off is led by a carry/positioning unwind, while weak fundamentals tend to come into play down the road. For example, in 2022 it was the COP, CLP, HUF, PLN and PHP that faced the most pressure for having high current account or fiscal deficits, despite having average carry-to-vol. This could very well be the case this time around too, as the Fed delivers on tightening, especially if oil prices stay high, keeping us cautious on EM FX beyond this near-term relief.

FIGURE 5. Past episodes of US tightening and carry unwinds suggests EM FX is still vulnerable

Episode	High Carry (% ch)	Low Carry (% ch)	EMFX (% ch)	#Days
2022 Fed Acceleration	-5.4	-7.1	-9.1	108
2023 Higher-for-Longer Fed	-4.8	-4.0	-6.0	76
2024 Mex Election/JPY Carry Unwind	-4.0	2.8	-1.2	89
2025 Liberation Day	-3.4	-1.8	-3.3	21
2026 US-Iran War	-4.0	-2.9	-4.3	33
2026 Fed Hike	-3.1	-0.8	-2.4	28

Note: High carry basket uses the top 5 currencies sorted by carry-to-vol, while low carry basket references the bottom 5 currencies (baskets are rebalanced monthly).
Source: Bloomberg, Barclays Research

FIGURE 6. Major data/events/speakers this week

	Date	Data / Speaker / Event	Barclays	Consensus	Comments
Data	5-Oct	Global PMIs			
		US: Sep ISM Svs	54.5	55.2	
		Turkey: Sep CPI	H: 30.2% y/y	H: 30.26% y/y; 2.28% m/m	
	6-Oct	Czechia: Sep CPI	H: 2.2% y/y	H: 2.4% y/y; -0.1% m/m	
		Philippines: Sep CPI	H: 6.5% y/y	H: 6.8% y/y	
		Thailand: Sep CPI	H: 3.2% y/y	H: 3.1% y/y; C: 1.56% y/y	
	7-Oct	Sweden: Sep CPIF		H: 0.9% m/m, 1.5% y/y C: 0.3% m/m, 0.7% y/y	Riksbank forecast: CPIF: 1.5% y/y; CPIF ex energy: 0.74% y/y
		Japan: Aug wages	Nominal: 3.9% y/y	Nominal: 3.7% y/y	
		Hungary: Sep CPI	H: 1.8% y/y	H: 1.8% y/y, 0.4% m/m	
	8-Oct	Colombia: Sep CPI	H: 0.27% m/m; 6.18% y/y	H: 0.4% m/m; 6.34% y/y	
		Chile: Sep CPI		H: 0.2% m/m	

	Date	Data / Speaker / Event	Barclays	Consensus	Comments
		Mexico: Sep CPI	H: 0.42% m/m; 3.45% y/y; C: 0.22% m/m; 3.77% y/y	H: 0.42% m/m; 3.45% y/y; C: 0.23% m/m; 3.79% y/y	
	9-15 Oct	China: Sep credit data	TSF: 468.1 trn M2: 7.7% y/y New CNY loans: 1050bn	M2: 7.4% y/y	
	9-Oct	US: Oct U. of Mich. Sentiment	46.5	48	
		Norway: Sep CPI	H: 3.5% y/y ATE: 3.1% y/y; 0.3% y/y	H: 3.6% y/y ATE: 3.1% y/y	Norges fcst: CPI 3.5% y/y; CPI-ATE 2.9% y/y
		Canada: Sep labour market data		Emp chg: 5k; UE: 6.5%	
		Brazil: Sep IPCA	H: 0.71% m/m, 4.46% y/y	H: 0.73% m/m, 4.5% y/y	
Central banks	5-9 Sep	ECB speakers			Including Kocher, Buch, Nagel, Lane, Schnabel, Escriva, Zigman, Cipollone, Vujcic, Wunsch
	6-9 Sep	Fed speakers			Including Williams, Bowman, Logan, Musalem, Collins
	6-8 Sep	BoE speakers			Including Mann, Greene, Pill, Lombardelli
	6-Oct	BoJ Ueda speaking			
	7-Oct	FOMC Sep minutes			
		NBH Sep minutes			
		NBP Oct meeting	on hold	on hold	
		BCRP Oct meeting	on hold	on hold	
		RBI Oct meeting	25bp hike	25bp hike	
		MAS Oct meeting			
	8-Oct	NBR Oct meeting	on hold	on hold	

Source: Bloomberg, Barclays Research

In focus

[Leonardo Crimella](#), Barclays, UK | [Christopher Ratkovsky](#), BCI, US | [Lhamsuren Sharavdemberel](#), BSJL, Japan

USD

Risk premium decompression under way

A series of recent developments, most notably consideration by the US government of a diesel export ban and the sharp widening of French sovereign spreads, have lifted the dollar to post-"liberation day" highs. This is despite an underwhelming NFP report last week, which was a rare occurrence among generally robust US data releases. The combination of a rebounding dollar with bond market relief has led to some additional dollar premium decompression, though we are still some way away from full unwind. With the Fed's hikes amounting to a demonstration of policy independence and continued economic outperformance, we expect dollar gains to sustain. This week focus shifts to the Services ISM release for September (Mon) and the minutes from the September FOMC meeting (Wed).

EUR

OATs weigh on the euro

The euro's appeal as the main "anti-dollar" was already beginning to fade following the September Fed hike but received a further blow by the sharp widening in OAT spreads last week. France's fiscal problems are daunting enough in their own right, but are made even harder to fix by the upcoming presidential election and a hung Parliament where consensus

building has often proved to be an impossible task. The fate of the 2027 Budget recently presented by the Lecornu government has therefore acquired extra significance as a potential trigger for near-term bond market and FX relief. That said, the Lecornu Budget aims at only marginal deficit reduction (c. 0.5% of GDP), as impending elections dampen prospects for more credible fiscal tightening while external risks such as the US diesel export ban have brought Europe's energy vulnerabilities back to the limelight. In all, risks are skewed for further euro downside in the coming weeks and months.

JPY

JPY supported by verbal intervention amid broad USD strength

Recently, verbal warnings from the government and authorities against JPY depreciation have increased, in addition to rate checks on 18 September. FM Katayama said on 18 September that Japan would “not hesitate” to conduct coordinated intervention, and revealed on 25 September that US officials expressed their concerns about JPY weakness at the 22 September US-Japan summit (Nikkei, 26 September). In addition, Vice FM for International Affairs Mimura said in a Reuters interview on 28 September that the message that both the Japanese and US governments share concerns about the JPY's undervaluation was “very clear.” This succession of warnings from senior Japanese and US officials should help curb further JPY depreciation to some extent. For the time being, intervention concerns are likely to cap USDJPY as it approaches key levels such as 159 and 160.

The main domestic events in the week ahead are PM Takaichi's policy speech on 5 October and BoJ Governor Ueda's speech on 6 October. Governor Ueda's remarks should be particularly important for assessing the future pace of BoJ rate hikes. However, the OIS market prices only around +4bp of tightening at the October meeting, suggesting limited JPY-depreciation risk from a dovish surprise. Conversely, as a December hike is largely priced in, hawkish comments are also unlikely to have a major JPY-strengthening effect.

GBP

Boosted by French spreads

Markets are yet to focus on the upcoming UK Budget, which in any event poses far smaller challenges than the French one. Accordingly, the pound was among the key beneficiaries from the widening in French spreads last week. PM Burnham also touted a potentially radical rethink of Brexit, including an attempt to return to the EU, though the path forward is unlikely to be charted any time soon. For the moment, French developments are likely to remain the primary driver for EURGBP; however, attention could shift towards the local Budget closer to the 28 October Budget date. Speeches by Governor Bailey and MPC members Mann, Pill, Greene and Lombardelli bear watching this week.

Commodity FX

Canada jobs in focus; RBNZ pricing remains too hawkish vs RBA

We maintain a constructive but increasingly nuanced view on the **CAD**. While monthly GDP data (1.4% y/y) exceeded expectations, we see emerging signs of softer Canadian growth, implying some downside risk to next week's PMI and employment data. However, the CAD has underperformed recently and positioning remains short, limiting potential downside to future surprises. Also, we see scope for the BoC to upgrade its growth and inflation forecasts and retain a hawkish bias in the October MPR, consistent with recent central bank communications and rates repricing.

We remain bullish the **AUD**, even against the backdrop of a resilient USD. Australia remains a key beneficiary of the AI commodity supercycle, which is generating a terms-of-trade boost to the economy. Housing measures introduced in the last budget are a modest headwind, but

commodity tailwinds dominate those by a considerable margin. The RBA's 25bp hike last week came across as somewhat dovish due to comments Governor Bullock's commentary. That said, the AUD has been resilient versus commodity peers in the aftermath, also notwithstanding marginal misses to the downside in some of the most recent data releases. The scope for further tightening depends on incoming data but we don't think Australia's macro backdrop has shifted meaningfully lately. A US diesel ban would be a marginal negative given Australia's limited refining capacity, but not more so than other refined product importers (eg, Europe or New Zealand).

The sharp hawkish repricing of the RBNZ following the start of its tightening cycle has failed to lift the **NZD**. This is already cause for concern, given market pricing for a return to outright restrictive policy across all benchmarks, despite a starting point of a substantially negative output gap, a generally challenging backdrop for small open economies and a dovish hike by the RBNZ in September. New Zealand does not share Australia's terms-of-trade boost and is even more exposed to a potential diesel export ban by the US; therefore, we pencil in further underperformance versus the AUD in our new forecasts.

Scandies and CHF

Scandie central banks support bullish outlook; a French boost for the franc

Our updated forecasts reflect a more constructive outlook for the **NOK**. The NOK is supported by a combination of higher oil prices and risk-asset resilience that suggests a demand-driven commodity shock is, at least in part, in operation. This may seem counter-intuitive in the face of the heightened focus on Middle East developments, but the expectations-driven rates repricing amounts to recognition that demand is more resilient than previously assumed. Norges policy has also pivoted in a more hawkish direction lately, also evidenced in the September 25bp hike, which adds to the currency's forward carry appeal. CPI for September (Fri) is in focus this week.

We expect **SEK** to rebound in our revised forecasts. In our view, the krona is yet to reflect the persistently positive momentum in demand-side indicators through the summer and all the way to September per last week's data releases. While we have been stopped out from our EURSEK short recommendation, such data trends have historically proven a key – albeit lagged – support factor. Inflation has also begun to move higher, notwithstanding disinflationary fiscal measures. Both of these factors have been acknowledged by the Riksbank, whose minutes from the last meeting displayed a hawkish tilt and all but pre-signalled a 25bp hike as early as November. While the market is more hawkishly priced than the Bank's guidance, this is not dissimilar to virtually all other major central banks. In all, actual delivery along with positive year-end seasonality should begin to support the SEK soon, in our view. Flash CPI for September (Wed) and the GDP indicator for August (Fri) are in focus this week.

The sharp widening in OAT spreads helped the **CHF** recoup its losses from the last 2 months versus the EUR in less than two days. We expect French risks to remain a tailwind for the franc in the run-up to the French elections in April, given that Switzerland is the main destination of safe-haven flows during periods of European political stress. Beyond French politics, fundamentals also bode well for a rebound in the franc per our new forecasts. The repricing of the ECB versus the SNB has been quite aggressive in recent months, inflation risks are beginning to shift to the upside in the Bank's own assessment, and the franc is not fundamentally expensive (which is also evidenced by the strong acceleration in Switzerland's economic activity).

Non-Japan Asia

We expect **USDCNH** to consolidate in the near term above 6.70, with National Day holidays keeping onshore liquidity limited. Ahead of the holiday, the PBoC fixed USDCNY at its lowest since February 2023, but continued to push back at the pace of CNY appreciation via weaker

than market expected fixings. We think China's new round of [incremental and targeted easing](#) measures will do little to move the needle on the economy, leaving exports as the key engine of growth. As such, the continued appreciation of the CFETS CNY trade-weighted index, which has risen to its highest in over four years, will mean the PBoC may limit the pace of CNY appreciation versus USD.

We think USD**KRW** has found a floor and is likely to edge higher. Any dip below 1,350 is expected to be short-lived amid a broadly firmer USD backdrop. Exporter-selling support of recent weeks is expected to be more limited after August tax payments though robust exports, which grew at 83.5% y/y in September, suggest that this source of support for the KRW will not fade quickly. The KRW may also gain some support from hawkish BoK expectations, with the September CPI releases keeping the pressure on. However, hefty foreign equity outflows (~USD 17bn in September) and renewed JPY weakness remain headwinds. August current-account data (Wed) is in focus this week.

Taiwan has also suffered from foreign equity outflows, but to a much smaller degree (USD 2.3bn in September). This should help in terms of relative **TWD** performance versus KRW though the relatively more dovish stance from Taiwan's central bank, CBC, is proving unhelpful at a time when the Fed is expected to hike again by year-end. USDTWD NDF points have moved higher in a jagged fashion since early August, creating more attractive entry points for lifers to rebuild FX hedges and we see limited scope for [hedge ratios to decline further](#). We would expect some USD selling if USDTWD tests the psychologically important level of 32.0 in the near term. Sep CPI data (Wed) should help give further clues to CBC policy this week.

SGD NEER has generally remained higher than 1.5% above the midpoint of the policy band and we expect it remain in the upper half over the coming weeks. Near-term performance should be driven mainly by regional risk sentiment, US yields and positioning ahead of the October MAS policy review. We see limited scope for a sustained move towards the top of the band without stronger evidence of inflationary pressure, while renewed USD strength could still push USDSGD higher. The domestic calendar is light, with August retail sales on Monday the main release. SGD rates are a notable exception to the rest of Asia, according to [our analysis](#), given the relatively strong historical pass-through from US bear-steepening and the more idiosyncratic behaviour of its front-end. We enter a [2s10s SGD SORA OIS steepener](#) recommendation.

The RBI's MPC meeting on Wednesday will be closely watched. In line with consensus, [we expect a 25bp hike to 5.5%](#), as strong growth and oil prices above USD 100/bbl keep pushing inflation higher. However, we don't expect the hike to materially support the **INR**, since the rupee has historically depreciated after past hikes. The broader backdrop adds to the pressure: portfolio outflows remain heavy, with September seeing USD 3.8bn in equity outflows and USD 219mn in FAR outflows. Seasonality also works against the rupee, as gold demand could pick up ahead of the festive season despite import duties. With USDINR trending higher, we expect the RBI to keep smoothing volatility through spot and forward intervention. However the short forward book surpassing USD 200bn would likely reduce the RBI's capacity to defend the rupee in the medium term.

We expect the USD**IDR** to stay under upward pressure as oil prices remain elevated and the bond sell-off continues. Portfolio flows offer little support, with equity outflows persisting and bond inflows slowing as global yields move higher. We also estimate USD 882mn of DNDF maturities based on primary auction data this week, which could weigh on the rupiah unless BI rolls them over. We do not see the IDR changing course in the absence of oil prices falling and risk sentiment improving. As we previously highlighted, we don't see [BI's expanded toolkit limiting the underlying pressure on IDR](#).

We expect continued **PHP** underperformance in the near term, with the currency remaining vulnerable to elevated oil prices and a stronger USD backdrop. Attention turns to September CPI on Tuesday (consensus: 6.7% y/y), which should provide greater clarity on the BSP's policy path for the remainder of the year. Our economists expect a final 25bp rate hike in October, taking the policy rate to 5.25%, although the decision remains a close call. Even so, tighter policy is unlikely to provide meaningful support to the peso given still-negative real rates and rising global yields. Against this backdrop, RPGB yields are likely to remain under pressure. Further ahead, we see some scope for PHP to stabilise as remittance inflows remain supportive and the planned GCash IPO,¹ which could become the largest ever in the Philippines, attracts foreign capital.

While **USDTHB** is likely to remain biased higher in a strong USD environment, several factors could help cushion the downside for the baht. Tourism activity is expected to pick up in Q4, and while it has underperformed this year, it should still provide some support to the external balance, albeit to a lesser extent than hoped for. In addition, October is typically a seasonally favourable period for gold exports, offering another tailwind for the currency, though this could be negated if gold prices keep falling. This week, attention turns to September CPI on Tuesday (consensus: 3.1% y/y). [Despite a resilient growth backdrop](#), we expect the BoT to remain accommodative, limiting support for the baht from the rates channel.

Among Asia's lower-yielding currencies, we prefer the **MYR**. Although we expect the BNM to hike in November, a strong USD environment is still likely to keep the currency on a modest depreciation trend. However, Malaysia remains better positioned than its peers, benefiting from higher oil prices as a net energy exporter and from AI-related demand supporting the electronics sector. August IP data on Friday should provide an important gauge of whether this growth momentum is being sustained.

LatAm

BRL: Brazilians vote today, in what polls point to as a tight presidential election between front-runners President Lula and Flavio Bolsonaro. They are expected to go to a run-off on October 25. Market consensus appears to be that Flavio can come back from a 3-5pp lead by Lula in Sunday's result and could cause a rally in local assets. Meanwhile, a larger gap should come with a sell-off in the BRL and rates. We think the second round could be tighter than market expects, even if the lead is in this consensus range, and that the run-up to the second-round could be noisy. At this point, we think market pricing in rates is slightly more positioned for a Flavio victory. That said, given the more challenging global environment, we expect fairly symmetric moves in rates and FX, as it will be difficult for the market to price too much from the BCB in either outcome. See [this note](#) for details.

MXN: USDMXN remained pressure last week, as the market continued to unwind positioned carry trades. We think this move is more related to positioning than fundamentals. It is true that Mexico's spreads to US rates are tight, but this is the case for EM overall. Mexico does not screen as vulnerable in fiscal or current account terms. Moreover, its growth momentum is picking up and the latest inflation print shows that the support from low food prices could be done. We think the data are ultimately the driver for the board's decisions, rather than dovish rhetoric, warranting a hike premium in 2027.

EEMEA

EMEA: NBP and NBR to remain on hold

PLN: We expect the zloty to weaken, as we expect the NBP to underdeliver on market rate expectations. We expect the NBP to remain on hold this week, in line with the Bloomberg

¹ BlackRock Said to Buy Into GCash Owner IPO Priced Below Maximum - Bloomberg, 22 September 2026

consensus, but the governor may also push back against market pricing of 100bp worth of tightening over the next 12 months, highlighting fiscal measures offsetting high oil prices. The government reintroduced a reduction in fuel taxes, which should push headline CPI lower by 0.7pp. On the rates side, we expect the Polish curve to steepen, as a more dovish NBP should support front-end rates, while still-loose fiscal policy should weigh on the back-end. We continue to recommend [paying PLN 2s10s](#).

RON: The RON and RonGBs remain under pressure due to the ongoing political crisis. Another PM candidate failed to obtain support in a confidence vote. The president will likely announce another candidate on Monday, who will struggle to find the support of the PSD and the liberals. Prolonged political uncertainty and a slowly rising probability of early elections add to pressure on the RON. We expect the NBR to remain on hold this week.

CZK: We expect the CZK to remain under pressure, as we expect the CNB to underdeliver on market rate expectations. The market continues to price in a significant (almost 100bp) tightening cycle, against our economists' expectations of no hikes. This week, our economists expect inflation to print at 2.2% y/y, below market consensus, which should support front-end rates but also weigh on the CZK.

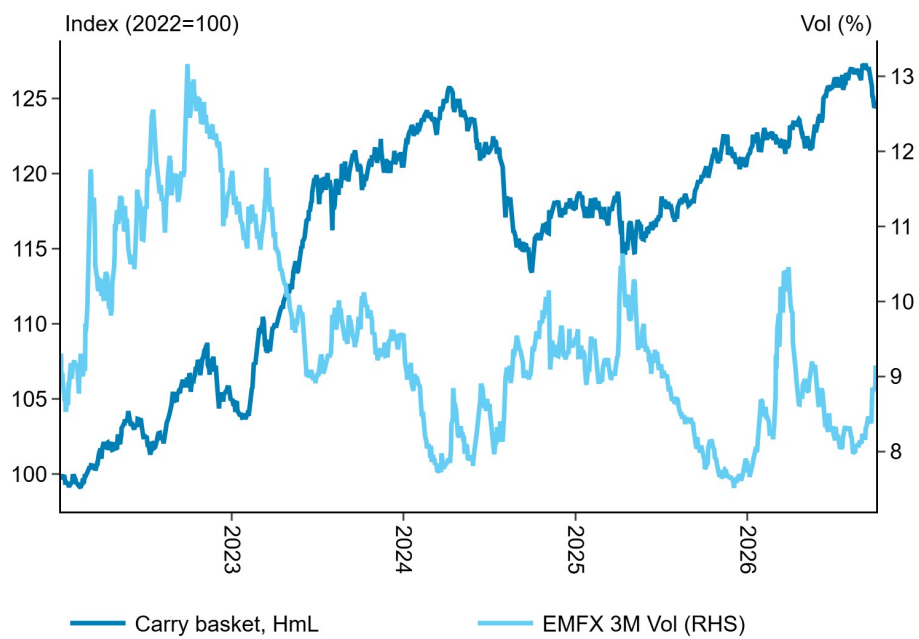
HUF: The forint continues to move on the back of global risk gyrations, but EURHUF seems to be trading in a wide 360-370 range. Any larger pressures are faded by clients willing to preposition for the euro adoption trade, and we expect this pattern to continue in the coming weeks. Our economists expect inflation to print in line with consensus; hence, it should not affect front-end rates or FX.

ZAR: We expect the ZAR to continue to underperform this week due to lower carry demand, driven by higher global FX volatility. In addition, we expect a rise in the ZAR's idiosyncratic premium due to more dovish communication from the SARB. At the moment, USDZAR screens as fairly priced by our model, controlling for global dollar and carry factors.

TRY: We expect the TRY to continue on its stable depreciation path this week. Our economists expect inflation to fall to 30.2% y/y, broadly in line with consensus, and any larger decline in inflation would reduce TRY real effective exchange rate appreciation pressures, helping in turn to manage the increase in the current account deficit.

Data calendar

Main economic events, major data releases including our forecasts, as well as a snapshot of key official interest rates and a calendar of global key events are available [here](#).



Analyst(s) Certification(s):

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BRCF2242