SEB FI & FX Strategy

10 July 2026

From optimism to re-escalation risk

At a glance:

In market focus. World Cup; Iran conflict.

Global macro and risk appetite. The three key factors shaping equity markets and risk appetite in H2 2026 are, in our view, oil prices, interest rates and the AI investment boom. Oil prices are almost back at pre-war levels, but inventories are lower, and traffic through the Strait of Hormuz remains constrained – with the re-escalation in recent days adding further uncertainty. We believe oil prices near USD 70/bbl would be sufficiently low to support a global economic rebound, provided the price shock is not offset by tighter monetary policy. The AI capex boom continues to deliver a strong growth impulse, particularly in the US, though mounting doubts have emerged around the durability of this spending surge as hyperscalers are increasingly compelled to raise debt and equity capital to fund it – and here, too, monetary policy will play a key role. Unchanged rates, oil prices easing back towards USD 70/bbl in Q3, and AI capex continuing on its current trajectory, would suggest a modest upside for broader markets in the months ahead.

USD short-end: Wait-and-see. The latest minutes underline a Fed that is uneasy about inflation, with only limited support for immediate tightening and a reluctance to hike into mounting growth uncertainties. This likely keeps the bar relatively high for rate increases and leaves the door open for cuts once inflation improves and labour market softness becomes more evident. Given the balance of risks, we think that discounting around 1.5 hikes is fair at this point.

USD bonds: A tad stretched on the upside. The rupture of the US-Iran ceasefire and rising oil prices have helped push the 10Y Treasury yield back above 4.50%. We continue to think that the 10Y yield will lack a clear trend in the coming months, fluctuating mostly in a 4.30-4.50% range, and that a sustained downtrend in long yields would require a durable conflict resolution and clearer support from Fed communication.

EUR short-end: Pricing a tad hawkish. Recent ECB communication has cemented expectations that the September meeting will be the next checkpoint for a possible rate hike, as the majority of the Governing Council are inclined to wait and even the most hawkish members are not pushing for immediate action. We think markets should currently price in around 25-30bp of rate hikes by Q1 2027.

EUR bonds: Yields rebounded from too compressed to slightly elevated levels. The optimism about a durable resolution of the Iran conflict helped push the 10Y Bund yield to 2.85% in June, but yields have risen again in July amid renewed escalation in the conflict and higher oil prices. The 10Y Bund now trades just above our 2.90-3.00% target range that we think remains valid for now.

Forecasts. Links to SEB's official macro, central bank and financial forecasts.

EURUSD: Where we stand and what moves us next

What's stated above leaves one question: **is the remaining policy repricing still USD-positive, or has the market already priced enough Fed hawkishness?** The ECB's remaining hike is largely priced and capped, while the Fed path still carries the larger two-sided risk: it can extend if inflation or oil re-accelerates, but it can also unwind if US data stay resilient rather than hot. That makes EURUSD less a story about the direction of the Fed–ECB policy gap, and more a story about whether US front-end rates can keep repricing higher from here.

In the following sections we break this down. We first take stock of the US backdrop – inflation, labour, and what the market now prices – to assess whether the case for extending the Fed's tightening path is strengthening or fading. We then turn to the euro area, where the question is the mirror image: whether anything in the data could force the ECB beyond the single hike already discounted. Finally, we add the war overlay – the one force that can override both backdrops – before translating the asymmetry into our EURUSD view.

The eternal question - escalation or de-escalation with Iran - has again tilted toward escalation this week, muddying the macro picture. For the rest of the summer, we therefore see two main scenarios:

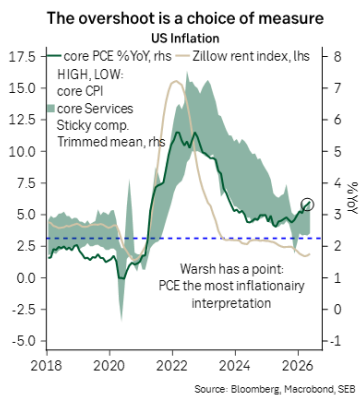
Base case: de-escalation + Brent back toward USD 70, below the ~78–80 threshold → Fed hikes get unwound → EURUSD recovers.
Risk case: renewed oil shock + Hormuz disruption + inflation pipeline reopens → Fed tail re-inflates + USD risk-off bid + Europe terms-of-trade hit → EURUSD lower.

But lets start with the macro backdrop – what did data say ahead of the new escalation?

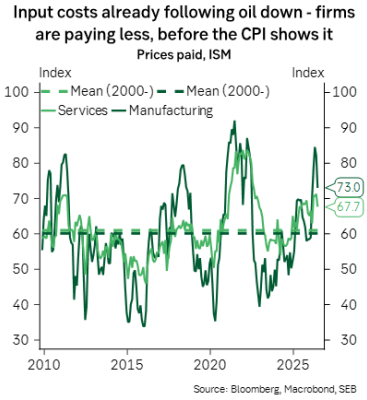
The US question is not whether the economy is weak - it is not - but whether the data still carry enough force to justify extending the tightening path. The first hawkish leg was built on sticky inflation, the oil shock and resilient activity. Extending it requires more: renewed inflation persistence or a genuine labour re-acceleration.

US Inflation is still too high, but the marginal impulse is fading.

Core PCE remains the Fed-relevant hawkish lens, so the case for Fed hawkishness is not dead. But broader underlying measures are not clearly re-accelerating, energy has retraced, and input costs point to a softer pipeline. The issue is no longer whether inflation is above target - it is whether the next impulse is strong enough to justify extending the tightening path. (as of early July; the renewed escalation is the live risk to this panel)

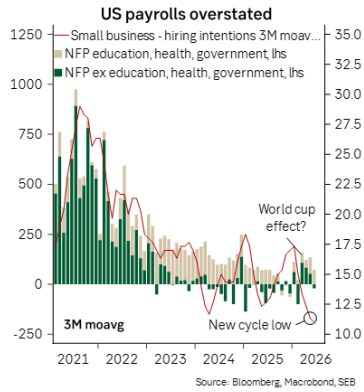


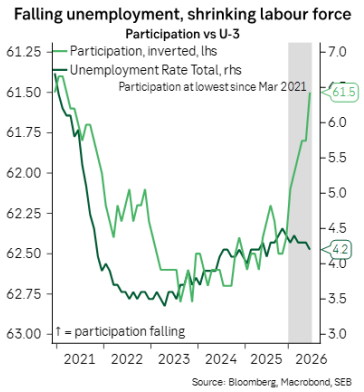


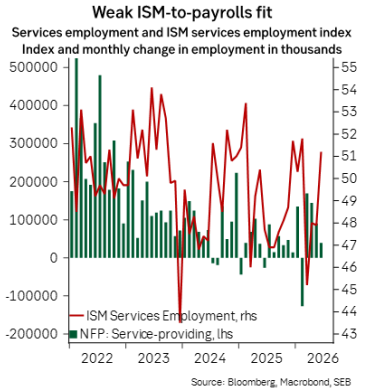


US labour is not breaking, but it is no longer clearly re-accelerating.

Headline payrolls still look resilient, but revisions have moved job growth closer to trend, cyclical hiring is weak once education, health and government are stripped out, and the unemployment decline is partly participation-driven. Services hiring surveys are the main counter-signal, but their mapping to actual payrolls is unstable.

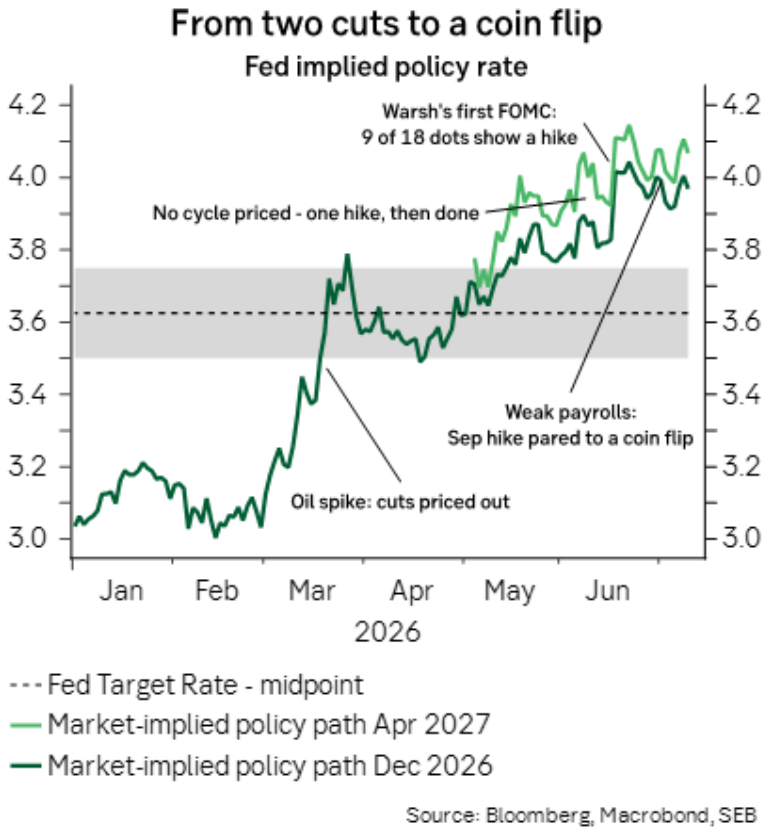






The market has repriced from cuts to a possible hike, but not to a sustained cycle.

The first hawkish leg was supported by sticky inflation, oil and resilient activity. The next leg needs stronger evidence: renewed inflation persistence or labour re-acceleration. Data that is merely "not weak" should no longer be enough.



Source: Bloomberg, Macrobond, SEB

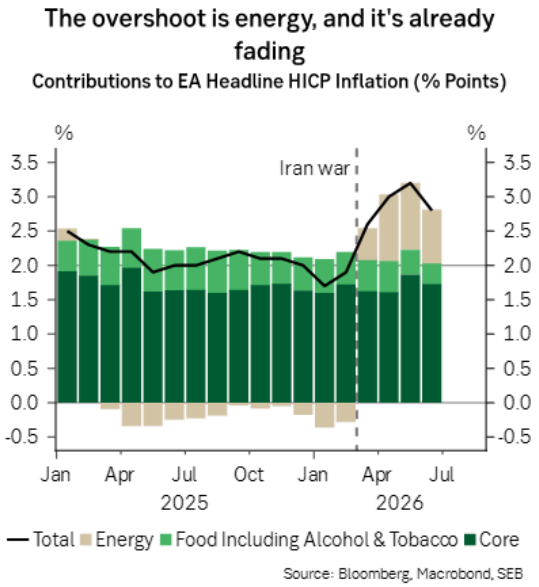
US takeaway: The hawkish Fed case remains alive, but the hurdle to extend it has risen. Inflation is still too high and activity is not weak, but energy/input costs are retracing, broader inflation is not re-accelerating, and labour strength looks softer after revisions. More tightening into 2026 now requires renewed inflation persistence or labour re-acceleration - not simply resilience.

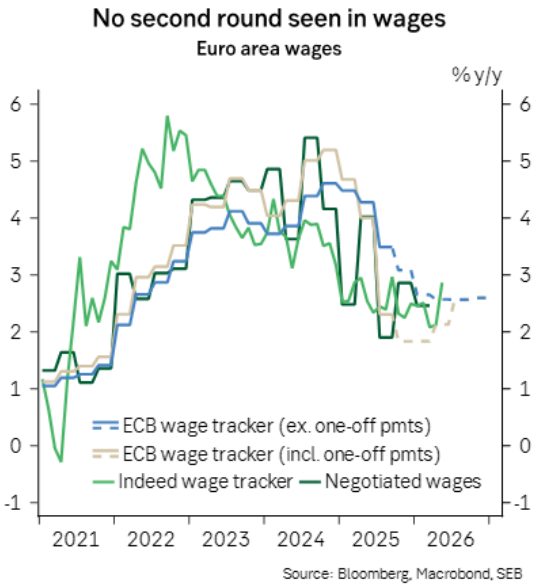
For EURUSD, the next question is whether this backdrop still has enough force to push US front-end rates higher and spot lower.

The euro area is the quieter half of the pair. One further ECB hike is priced; the question is whether anything in the data could force more. The panels below test the three candidates - whether the HICP overshoot is broadening beyond energy, whether wages show second-round pressure, and whether the activity stabilisation is strong enough to support an independent euro-positive story. Our answer to all three is no, which caps the European leg and shifts the burden of the EURUSD view entirely onto the Fed.

The inflation overshoot is energy-led, not domestically broadening.

Headline inflation has risen on energy, while core has not confirmed a broader acceleration. More importantly, wage trackers are rolling over, so the ECB has limited evidence of second-round pressure. That keeps one residual hike alive, but makes it hard to justify pricing a broader tightening cycle.

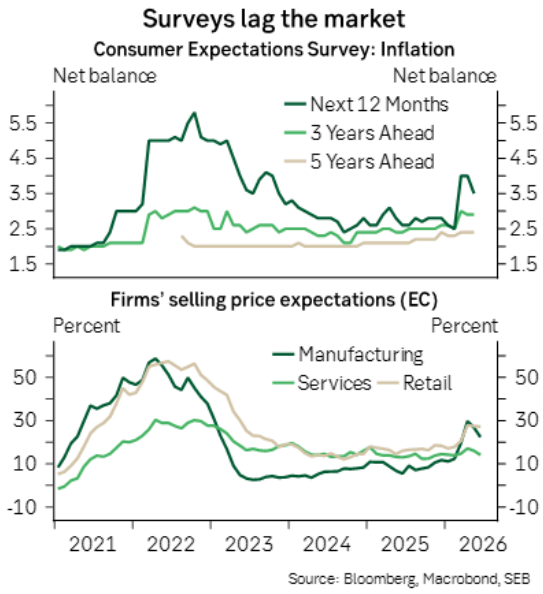




Market inflation pricing has already unwound the war premium.

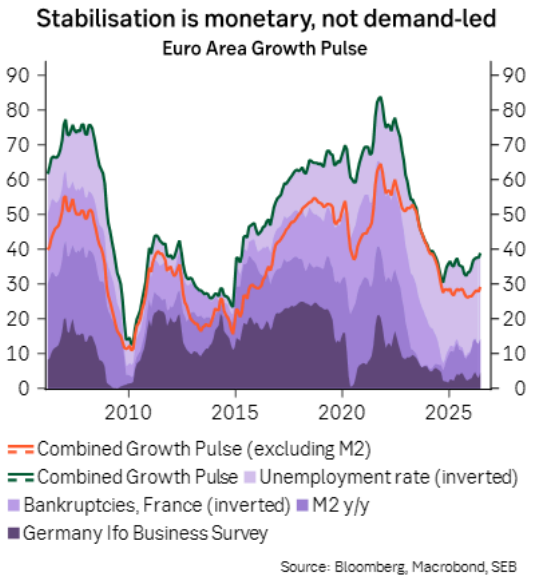
The 1y inflation swap spiked with the energy shock but has round-tripped, while 5y5y barely moved. Markets treated the shock as temporary, not as a regime shift. Household expectations and selling-price surveys remain elevated, but look more like lagging echoes of the input-cost shock than evidence of a new domestic inflation impulse. (as of early July; the renewed escalation is the live risk to this panel).

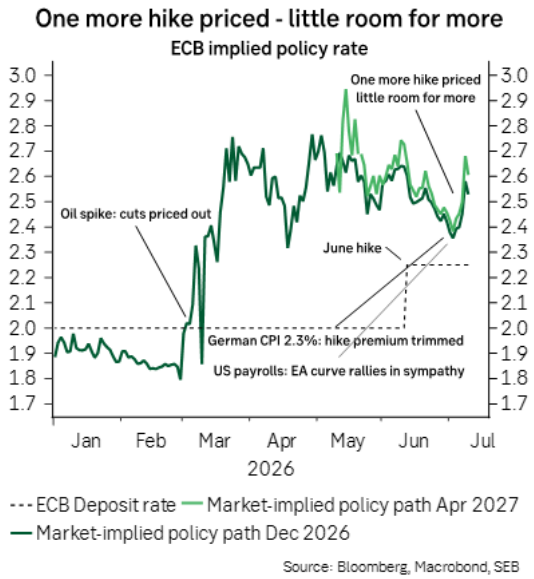




Activity is stabilising, not recovering. The improvement is mostly monetary: including M2, the growth pulse has turned higher as the monetary drag fades; excluding M2, real activity remains weak and consistent with stagnation. This keeps the ECB from being forced dovish, but it does not support a broader

hawkish repricing. Europe can avoid becoming a drag, but it is not strong enough to drive an independent euro-positive story in the near term.





For EURUSD, the trade is not "long Europe"; it is "fade Fed hawkishness extension unless transmission reappears." Europe is stagnant but not breaking, and one ECB hike is already priced. That caps the European leg. EURUSD downside now needs fresh US front-end widening and confirmation through spot; without that, the asymmetry shifts toward EURUSD recovery as Fed hawkishness deflates.

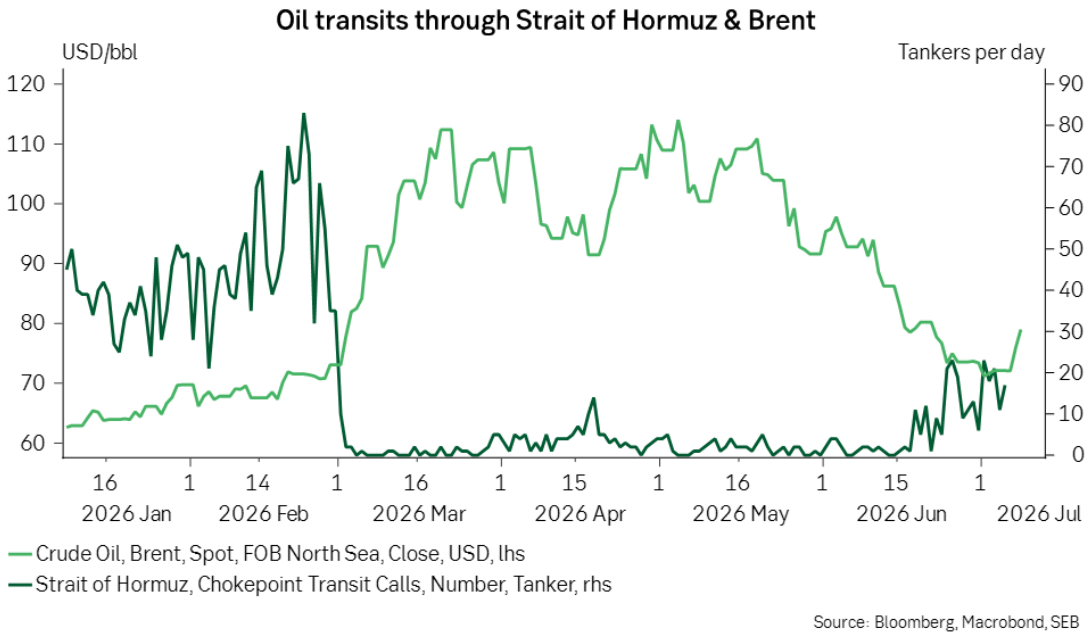
The war overlay: two paths from here. The backdrop above describe the underlying trend - and the underlying trend is disinflationary on both sides of the Atlantic. This week's escalation poses the only question that can override it: whether a renewed energy shock re-inflates, through the pipeline, what the domestic data is deflating. With the MoU declared over, US strikes resumed, Iranian oil sanctions reimposed and Brent back near USD 80/bbl, this is no longer a tail - it is a live fork. We therefore frame the coming month as two paths rather than one call.

De-escalation: the backdrops become binding. Talks resume in some form, Hormuz transit normalises, and oil retraces toward USD 70/bbl as the war premium - which markets have consistently faded quickly this year - unwinds once more. In this world the July and August inflation prints stay clean, the case for extending the Fed's tightening path erodes on schedule, and the asymmetry described above plays out: the Fed's ~1.5 priced hikes are progressively unwound while the ECB's capped hike stands. This remains our base case, with less conviction than two weeks ago.

Escalation: the oil channel overrides the data. Sustained Hormuz disruption, sanctions barrels off the market into already-low inventories, and Brent holding above USD 80/bbl re-runs the spring sequence - energy into input costs into headline, cuts priced out, the Fed tail re-inflating with a lag through the August data. For FX this is a triple burden on the euro: the US front-end reprices higher, Europe's terms of trade deteriorate, and the dollar takes the risk-off bid. Our factor framework from June ranks USD the clear outperformer in this regime; EURUSD returns to the event-driven range, with the spring lows back in play.

One warning on timing. The July 14 CPI print is built on largely pre-escalation data. A benign print confirms the underlying disinflation trend - it does not confirm the de-escalation path, and should not be traded as if it does. The oil channel gets its verdict in the August prints. The gap between those two dates is where this summer's whipsaw risk lives.

What to watch: Hormuz transit volumes (the cleanest physical indicator of which path we are on); Brent above or below the ~USD 78–80 threshold; whether rhetoric around Kharg Island and enrichment converts into physical supply disruption; the July 14 CPI; the late-July FOMC; and the September ECB checkpoint.



Source: Bloomberg, Macrobond, SEB

Transit volumes collapsed with the war and only partially recovered under the MoU; Brent traded the mirror image throughout. This is the cleanest real-time indicator of which path is playing out - a renewed slide in transits confirms the escalation scenario before the inflation data can.

Where are we going from here?

EURUSD scenario map: what confirms recovery, what confirms the break				
Scenario	**Last FI/FX strategy note**	**What has changed?**	**Status now**	**EURUSD implication**
Previous base: overshoot fades	Spot had moved below our expected 1.16–1.18 range, but a confirmed break still required more evidence: fresh US-EUR front-end widening, higher oil/risk premia and renewed EUR downside hedging.	EURUSD has continued lower and US-EUR front-end spreads have moved further in USD's favour. But spot has not fully validated the rates move, positioning has not extended materially, and the move remains broad USD/Fed-led rather than EUR-specific.	**Weakened, but not dead.** The overshoot-fades view now needs Fed pricing to stop extending and spot to stop making new lows on hawkish news.	A return toward 1.16–1.18 requires US-EUR spreads to stabilise or narrow, oil/risk premia to fade, and EURUSD to hold firm despite resilient US data.
Downside: confirmed break	A confirmed break required sustained sub-range price action, fresh US-EUR front-end widening, higher oil/risk premia and stronger EUR downside protection demand.	Rates and options now support the downside more clearly. However, oil/risk transmission is not yet fully confirmed, CTA shorts are not extreme, CFTC is near flat, and spot still trades richer than rates-implied levels.	**Closer, but not fully confirmed.** EURUSD can still trade lower on rates and positioning, but the next leg needs fresh Fed repricing, oil transmission and spot confirmation.	Near-term risk is reconvergence lower toward the rates-implied 1.12–1.13 area if US data or escalation sustains the US leg. A deeper move needs Brent above USD 78–80, falling Hormuz transit, rising US breakevens and fresh EUR selling.
Upside: Fed hawkishness deflates	Upside required lower oil, softer US data, a more dovish Fed path and renewed rotation away from USD.	US data are not weak, but the marginal impulse is fading: inflation is still too high but not clearly re-accelerating, labour is resilient but softer after revisions, and the market has already moved from cuts to a possible hike.	**Delayed, but becoming more asymmetric.** This is not a bullish Europe story; it is a Fed-tail deflation story. Europe only needs to avoid a fresh energy, growth or political shock.	If the Fed's priced hikes unwind while the ECB's capped hike remains priced, EURUSD upside reopens. Historical mapping points toward 1.18–1.20, but this should be treated as an upside scenario range rather than a point forecast.

		more for energy pass-through.	**Now the dominant summer filter.** De-escalation makes the disinflation/Fed-unwind backdrop binding. Escalation overrides the data through oil, breakevens, Fed pricing, Europe's terms of trade and USD risk-off demand.	**De-escalation:** EURUSD recovery / short-covering. **Escalation:** EURUSD lower, spring lows back in play. Watch Brent 78–80, Hormuz transit, US breakevens, July CPI, late-July FOMC and September ECB.

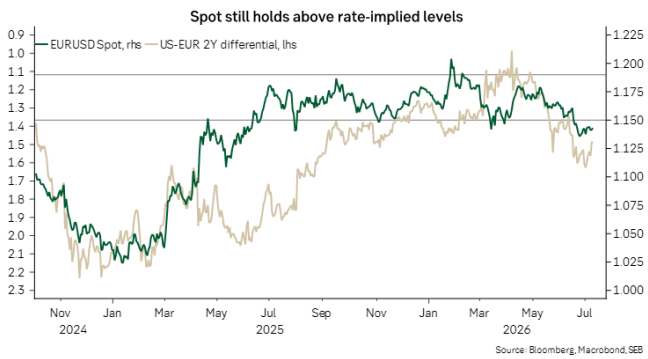
The July repricing pushed the US–EUR 2Y differential back toward levels historically consistent with EURUSD around 1.12–1.13, yet spot has held closer to 1.14 – through both the rates move and this week's escalation. EURUSD spot is therefore not fully validating the downside signal from rates.

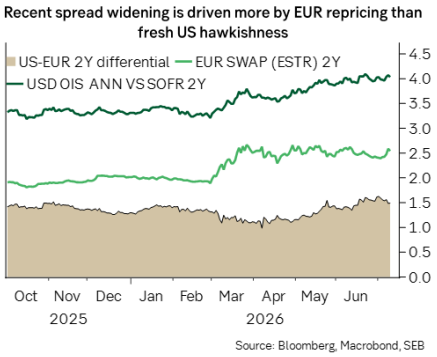
The latest rebound in the rate differential has been more EUR-driven than US-driven: EUR front-end rates have moved lower relative to USD rates, while the US leg has not delivered a clean new hawkish impulse. That makes the EURUSD downside signal less forceful than a Fed-led widening.

This is not a claim that current Fed pricing is wrong. Around 1.5 hikes is defensible on today's data. The point is that the remaining variance sits mainly on the Fed side. The ECB's final 25–30bp is largely priced and capped, while Fed pricing can still move both ways: it can be fully or partly priced out if US data stays merely not-hot, or extend toward two hikes or more if oil revives the inflation channel.

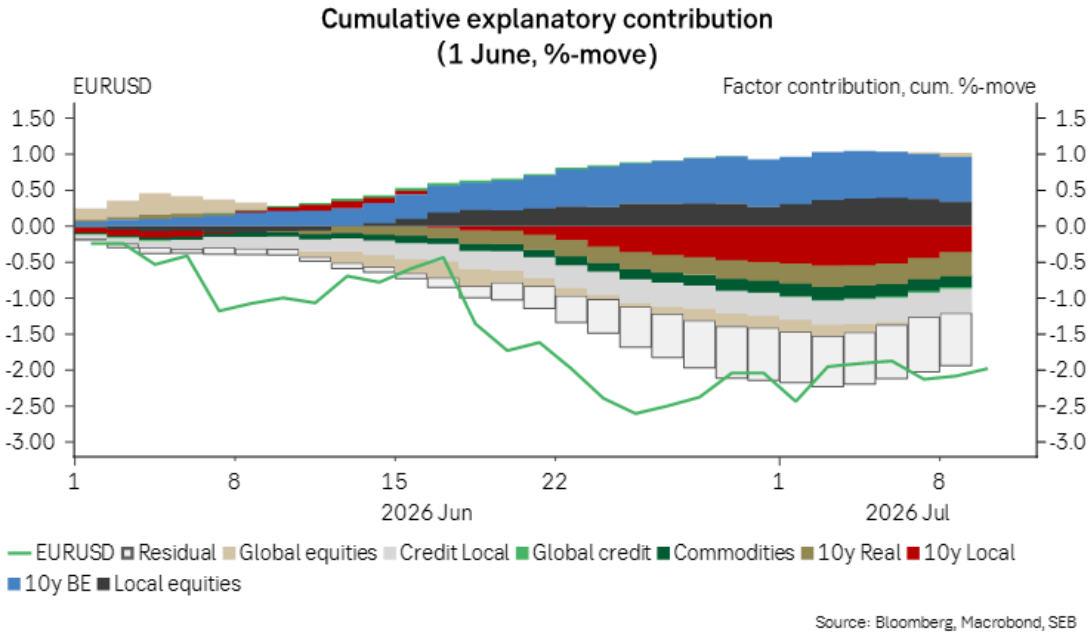
That defines the scenario split. In our base-case de-escalation path, spread narrowing should be Fed-led as priced Fed hikes fade. A full unwind of the roughly 1.5 priced hikes would be worth around 40–60bp on the spread, historically consistent with EURUSD around 1.18–1.20. Given the remaining geopolitical risk premium, we treat that as an upside distribution rather than a point forecast, and set a more conservative 1.17–1.19 target range.

EURUSD has not fully validated the rate move - and the spread rebound is EUR-led

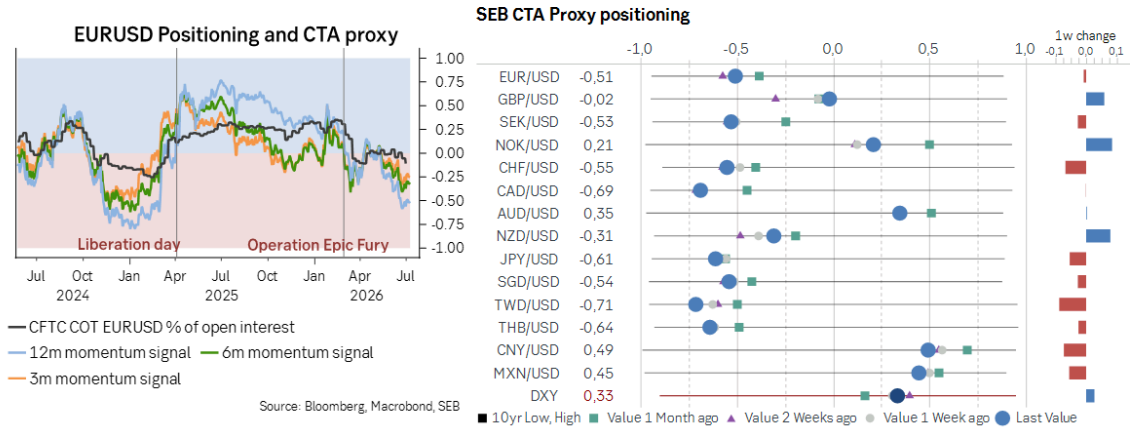




Since 1 June, systematic factors - rates, commodities, equities and credit - explain only a part of EUR/USD's decline; the residual has grown. US breakeven inflation declining throughout June have been a cushion – but inflation pricing is now again increasing.

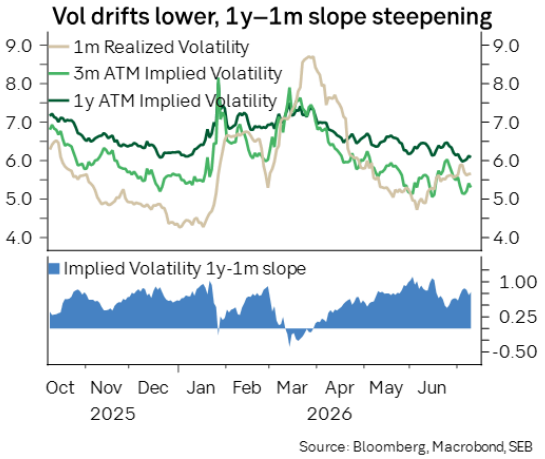


The escalation didn't drive new sellers. The CTA 12m proxy sits at -0.5 - short but not elevated - and has barely moved since this week's escalation, while CFTC specs are near flat. The headlines that widened the rates spread added no fresh shorts, mirroring spot's own refusal to follow. The cross-section shows a broad-USD trade, not a euro-specific one. Bearish news adds little selling from here, while fading escalation risks would trigger short covering first.



Options twitched where spot and flow did not. The spring skew extreme round-tripped by June, but risk reversals have turned back down on the escalation - the front end near -0.5 (still modest against the spring's -1.4). Options are paying for renewed downside. The surface otherwise prices a quiet summer:

front-end vol in the mid-5s and a steep 1y–1m slope. For the upside view that's favourable twice over - vol is cheap and the put skew makes calls the cheap wing.





Bottomline: We enter summer with a modest constructive EURUSD bias, but express it through cheap upside convexity rather than large spot longs. The market has priced a meaningful Fed hawkish tail, but spot and positioning have not confirmed a new downside regime. De-escalation and clean inflation data would allow Fed pricing to unwind and EURUSD to recover toward 1.17–1.19 by year-end - though note the July 14 CPI prints on largely pre-escalation data; the oil channel's verdict comes with the August prints, which is why we prefer options over spot through that window. The key risk is renewed oil transmission: Brent above USD 78–80, falling Hormuz transit and rising US breakevens would shift us back to a bearish EURUSD regime, with the spring lows around 1.10–1.11 back in play.

Summer watchlist		
Driver	**Base-case signal**	**Bearish EURUSD signal**
Brent	Back toward USD 70	Holds above USD 78–80
Hormuz	Transit normalises	Transit falls again
Fed pricing	1.5 hikes unwind	More hikes priced
US data	Resilient but not accelerating	Inflation/labour re-accelerate
EURUSD spot	Holds despite hawkish news	Breaks lower and follows rates
Options	Put skew fades	Front-end EUR puts rebuild
Positioning	Shorts cover	Fresh CTA/spec selling

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