

Opinion | 28 January 2026

FX RATES

US dollar stakes get raised – what to do now in the rates space?

President Trump and Treasury Secretary Bessent have both opined on the US dollar, actually in opposite directions. The path of least resistance is weaker, but with limits. How to play this? In short tenors we want to create synthetic EUR assets (USD liability), while in longer tenors we want to synthetically create USD (EUR liability)



The weak US dollar is creating opportunities in the Rates space

The US dollar popped weaker on most crosses late Tuesday. This stemmed from off-the-cuff comments from President Trump along the lines that he's okay with some dollar softness, as it means that other currencies are less likely to devalue versus the dollar, in turn preventing their products from becoming more competitively priced in the US. This harps back to the so-called Mar-a-Largo accord that voiced frustration that dollar reserve status, while positive, resulted in a dollar that was too strong, in turn making US manufacturing less competitive. Our views on that are [here](#) (Q&A) and [here](#) (podcast).

Remember, it's the US Treasury that has responsibility for the US dollar, not the Federal Reserve. Scott Bessent, on CNBC this morning, cited the "strong dollar policy" phrase. So, he has decided *not* to push in the same direction as President Trump. Indeed, the dollar does not need a push. It's already moving along the path of least resistance – weaker. It's the unwritten

preference of the administration, but not too weak too fast, and not getting to uncomfortable levels. Our FX strategists have also maintained a weaker dollar view – it's [here](#).

So what does all this mean for the rates versus FX arbitrage? In recent weeks, we've opined on this for Japan and South Korea ([here](#)) and China ([here](#)). Now we focus on the eurozone, or more specifically, Ester versus SOFR.

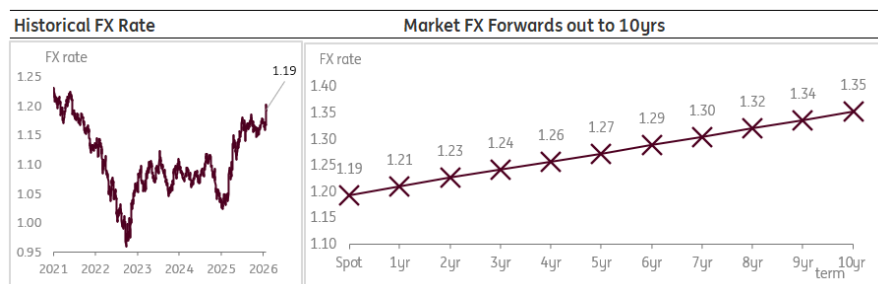
The FX exposure piece - anticipating a weaker dollar

A weakening in the US dollar versus the euro should not be a huge surprise. It's discounted in the FX forward profile, which is a reflection of the rate differentials between higher US rates and lower eurozone rates. If those spreads represent an equilibrium, then the EUR *must* appreciate versus the USD. That said, forwards are not always realised. A great example of that is the recent weakness of the Japanese yen. There, the forwards have not been realised as the rate spreads have *not represented* an equilibrium. Hence, the rapid tightening in spreads, mostly from higher Japanese market rates.

The big question from an Ester versus SOFR perspective is how the EUR/USD FX rate actually evolves versus the forwards. Our FX strategists have generally viewed the 1.20 to 1.25 range as a path we can absolutely venture along. Beyond that, it gets more hazy. Anything that threatened 1.30 would look a tad outlandish. So conservatively, we have 1.25 as a critical level, acting as something of a floor. As we glean along the FX forward profile (chart below), we hit 1.24 on the 3yr tenor and we're at 1.26 on a 4yr tenor. That's the area of inflexion from a rates tenor perspective.

The EUR/USD exchange rate - shooting to 1.20 area (USD down!)

And for FX forward profile - discounting 1.36, eventually



Source: ING estimates, Macrobond

The spreads piece - steady to tighter anticipated

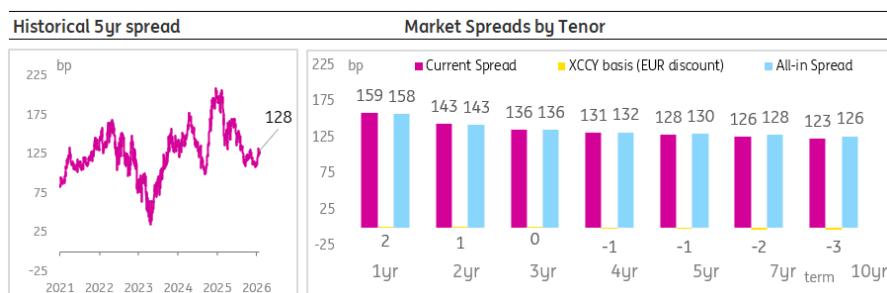
The bias from the previous section is to avoid being short the euro versus the dollar on tenors out to 3.5yrs, as there is a material risk that the actual EUR/USD FX rate dips below the FX

forward profile. If that happens, and we're long carry (receive SOFR and pay Ester), the value of that carry is wiped out (as we have created a EUR liability that gets hurt on EUR strength). In that case, it's best to be short carry (receive Ester and pay SOFR). That carry cost ranges from -c.160bp in the 1yr out to -c.140bp in the 3yr (see charts below).

For longer tenors, the implied breakeven for long carry plays is above 1.25 (as gleaned from the FX forward profile above). The area of real comfort is in the 7yr tenor, which has an FX forward rate of 1.31 (and the 10yr is even more comfortable at 1.36). The simple prognosis here is long carry is comfortable in longer tenors, provided there is a reasonable degree of comfort that EUR/USD does not venture above 1.25, with the 1.3 area as the ultimate pain point.

US spreads over eurozone (Ester into SOFR)

Chart on right includes the cross currency basis - practically invisible (as at or around zero)



Source: ING estimates, Macrobond

The basis piece is not a factor, but the FX entry point actually is

The EUR/USD cross currency basis, which is effectively an arbitrage between actual spreads and FX forwards, is practically zero at the moment. It used to reflect a sizeable dollar premium, which resulted in wider spreads than advertised (often, typically by some 30bp). That has disappeared, and is liable to remain absent. That's good for the negative carry play, as it means no amplification of spreads. While for positive carry plays, it means that a prior positive arbitrage has gone, but at least has *not* flipped to a space where it actually hurts.

One clear plus for the positive carry play is the FX entry point has improved. Get in at as strong an EUR/USD rate as possible, and the risk for subsequent EUR/USD strength is reduced. Also, the FX forward profile shifts higher too, marking out a better breakeven prognosis. With respect to absolute spreads, the table below shows that absolute spreads are a tad lower versus their historical averages (by some 10bp). Still good entry points on absolute spreads ranging from 125bp to 150bp. And we expect these spreads to be biased tighter, towards the 100–125bp area, mostly from the Ester side. But not much in it.

Here's the detailed numbers...

Includes deviations versus averages, and absolute rate levels for SOFR and Ester

Anatomy of a Cross Currency Swap USD vs EUR liability (bp)							
	1yr	2yr	3yr	4yr	5yr	7yr	10yr
Current Spread	159	143	136	131	128	126	123
XCCY basis (EUR discount)	2	1	0	-1	-1	-2	-3
All-in Spread	158	143	136	132	130	128	126
	Spot						
FX forward profile	1.195	1.21	1.23	1.24	1.26	1.27	1.31
Implied cost per annum	156	139	132	127	125	123	121
Implied spread vs XCCY*	2	3	4	4	5	5	5
Average spread (past 5yrs)	148	136	129	125	123	121	117
Avg. XCCY basis (past 5yrs)	-16	-16	-16	-16	-17	-17	-18
Average Total (past 5yrs)	164	152	145	141	140	138	134
Deviation versus average	-6	-9	-9	-10	-10	-10	-8
* Note: This spread is actually close to zero, but materially affected by the direction of the re-couponing. No implied arbitrage here							
Eurozone Rate	1.91	1.97	2.07	2.18	2.27	2.43	2.64
US Rate	3.50	3.40	3.43	3.49	3.55	3.69	3.87

Source: ING estimates, Macrobond

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