

The FX Trader Global yields explode higher but JPY steady

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Summary: Global bond yields exploded higher in Europe and the US yesterday on ECB hawkishness and a fresh huge surge in crude oil prices. And yet currency market volatility was rather muted. The JPY weakened slightly before firming again Friday, an impressive performance relative to a backdrop that would have been far more JPY negative in cycles past. The US dollar is relatively steady ahead of today's possibly pivotal US August CPI release.

An explosion higher in bond yields in Europe and the US Thursday – US CPI next. Ahead of the ECB meeting, crude oil prices were already surging higher and sending the US dollar higher as well amidst cratering risk sentiment. And then the ECB delivered a hawkish surprise on top of its expected 25-bp rate hike that sent yields ripping higher the world over. The German 2-year yield surged a stunning 16 basis points after the ECB meeting on the one-two of the ECB's raised headline and core CPI forecasts for next year and 2028 and the multi-dollar rise in crude oil prices. That was the largest rise at the front end of the Eurozone yield curve in over 18 months. The guidance at the Lagarde press conference brought the odds of an October ECB meeting hike sharply higher at above 75%. Longer yields also rose sharply to new cycle highs. And note that the Germany-France 10-year yield spread widened several basis points to 94 basis points, its widest since the 2010-12 Eurozone sovereign debt crisis.

EURUSD price action was rather choppy yesterday through early today, if with a surprisingly low amplitude. Initially, it was falling to new lows for the week on the risk-off tone ahead of the ECB meeting before the hawkish surprise lifted it back higher within the range, only to have it settle back lower again. Even EURGBP was steady, showing that central bank signals are not much of a driver here, again largely because yield moves across most major economies ex Japan were in parallel (more on that below USDJPY chart discussion!). CHF was only slightly weaker as EURCHF nudged to new highs for the year and the low-yielding SEK didn't like the higher yield/risk-off tone, with EURSEK surging above 11.25 at one point this morning for the first time in over a year. Elsewhere, AUD caught a sudden cold on the risk-off tone and as copper prices plunged just after having poked at record highs.

Key takeaways and what to watch for from here: While the ECB was hawkish, the yield rise in the US and Europe was of similar magnitude and the US dollar tends to remain steady in times of ugly risk sentiment, which was certainly the case for much of yesterday – hence the EURUSD choppiness and still-muted trading range. Today's August CPI release is the latest test for US treasuries and the USD. If a higher print is seen as cementing next week's FOMC rate hike (which is still stubbornly not fully priced in at around 70% odds) and risk sentiment remains on the defensive, the US dollar could keep the upper hand versus the Euro. The hope for USD bears has to be for a CPI print that is either in-line with or below expectations. The crude oil price is a critical independent variable as well here, and hopes that today's six-member Gulf Cooperation Council meeting with Iranian officials Monday in Oman on a deal to get shipping flowing through the Strait of Hormuz bear fruit (this has helped crude oil come well off overnight highs.)

Chart focus: USDJPY surprisingly steady Yesterday's USDJPY action was remarkable for its lack of

greater volatility as US treasury yields exploded higher on higher crude oil prices and the ECB hawkishness. In cycles past, one would have expected profound JPY weakness, but instead we got a mild backfilling to as high as 154.67 Thursday before it rolled back over – this is a comfort for JPY bulls even if further backfilling remains a risk here is global. There is an added twist on why the JPY may be in a different place relative to cycles past and more insulated from global bond market volatility: the idea that Japan's savers may now bring their savings back home. With the world's large net international investment position (NIIP) surplus, that's a lot of potential flow and therefore receding demand for bonds elsewhere. At the margin, the size of yesterday's move in global yields ex Japan may already be a sign of this concern. Technically, the break of the 155.00 so far looks confirmed, with yesterday's 154.67 high an important minor resistance level. We have the downtrend case supported in the Ichimoku weekly framework by the lagging span line breaking down through the price bars (the green line circled in red). The more profound down-trend indicator in the bigger picture would be taking out the kumo or cloud, the bottom of which is skating along now just above 150.00 but rises above the 2026 low of 152.10 toward the end of the year. Do we get lost in limbo for a while here to digest this large move lower or does the downside momentum pick up again soon?

Today's US CPI likely either tilts the odds toward more certainty of a rate hike at next Wednesday's FOMC meeting or keeps us all in the dark, enhancing the drama around that event. Meanwhile, global bond yields and the moves in crude oil prices are in the driver's seat. Also up next week we have a Bank of England meeting on Thursday that is expected (priced into forward market expectations) to bring guidance for a new rate hike cycle to begin at the November meeting, with low odds of a move already next week.

Finally, there is the Bank of Japan on Friday that is fully priced for a 25-basis point hike, with uncertainty around the pace of hikes beyond that meeting. The degree of hawkishness at that meeting may have a lot to do with where USDJPY is trading at the time. In other words, USDJPY 155+ could mean a very hawkish BoJ, while USDJPY 152 or below could mean a steady-relative-to-market expectations BoJ.

FX Board of G10 and CNH trend evolution and strength. Note: If unfamiliar with the FX board, please see a video tutorial for understanding and using the FX Board.

The JPY strength still dominates despite the couple of days of consolidation since the peak in the action earlier this week. Elsewhere, SEK is at the bottom of the pack and the US dollar downside momentum is fading fast here – today's CPI looks pivotal for the USD outlook.

Table: NEW FX Board Trend Scoreboard for individual pairs.

In the individual pairs, all JPY crosses have well established downtrends. The next question is around the broader US dollar picture, should one emerge after today's CPI print or next week's FOMC meeting as it won't take much more persistent downside to send GBPUSD and EURUSD over the edge into a negative trend from here. The same goes for gold and silver, which are under pressure from the rocketing higher in global yields.

Source: <https://www.home.saxo/content/articles/forex/the-fx-trader-global-yields-explode-higher-but-jpy-steady-11092026>