

Forex Flash

The end of easy money: between global tightening and an energy shock

- The G7 foreign exchange market is dominated by three converging forces: the surge in the Japanese yen to a seven-month high against the dollar, fuelled by expectations of an accelerated rate rise by the Bank of Japan; oil prices, which have surpassed USD 100 per barrel due to the Iran-US conflict, have reignited inflationary fears; and a globally tightening shift by central banks, with the ECB having raised rates on 10 September, the BOJ widely expected to hike on 18 September, and growing speculation about a rate rise by the Fed.
- The US Dollar Index stands near two-week lows at 98.80, with USD/JPY falling from 160.53 to 153.54 over the past three months – a 4.4 per cent rally in the yen – whilst GBP/USD rose by 1.3 per cent and EUR/USD by 0.8 per cent. The Swiss franc stands out as the only G7 currency to have weakened against the dollar this quarter, falling by 1.3 per cent, as markets are using it as an alternative funding currency for carry trades in place of the strengthening yen.
- Next week looks set to be one of the busiest and potentially most volatile of the year, with three G7 central bank decisions in just three days – a rare event that the options markets are pricing in with exceptionally high volatility premiums.

Global Geopolitical Landscape and Energy Shock

The G7 foreign exchange market is dominated by growing geopolitical tensions in the Middle East and military retaliation between the **United States and Iran**. In the first few days of September, US forces neutralised ten Iranian oil tankers as part of the enforcement of a naval blockade on Iran's ports. The Islamic Revolutionary Guard Corps (IRGC) retaliated with coordinated attacks on ten vessels near the **Strait of Hormuz** and by launching ballistic and cluster missiles at the US airbase at Muwaffaq Salti in Jordan, where eighteen projectiles were intercepted by Jordanian air defences. At the same time, Houthi militias launched drone and missile attacks against oil infrastructure in four cities in Saudi Arabia.

This escalation has pushed the price of **Brent** crude oil **above the \$100–105 per barrel mark**, reigniting concerns about a global inflationary shock driven by energy costs. Against this backdrop of marked risk aversion, **spot gold** prices have surged above **\$4,400 per ounce**.

Bond Yields at Multi-Year Highs

Yields on 10-year US Treasuries reached 4.85 per cent, their highest level since November 2023, whilst the yield on the 10-year German Bund hit 3.44 per cent, its highest since 2011. Eurozone government bond yields continue to rise as traders price in two ECB rate rises in 2026 and a rate of 3.1 per cent by the end of 2027.

The US Dollar (USD) and the Federal Reserve

The US Dollar Index (**DXY**) fluctuated between **98.44 and 99.00 points**. Despite the downward pressure of the previous days, US macroeconomic data confirmed the strength of the real economy:

11 September 2026

Weekly Note

Research Department

Rates, FX & Commodities
Research

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- **Labour Market:** The August Non-Farm Payrolls report showed an increase of **162,000 jobs** (exceeding expectations of 56,000), with the unemployment rate stable at **4.1 per cent** and the July figure revised upwards to +21,000.
- **Producer Price Index (PPI):** The PPI for final demand rose by **0.4 per cent month-on-month** and **5.4 per cent year-on-year** in August, driven by a **4.2 per cent** increase in energy prices and a **24.1 per cent** surge in diesel prices.

Following these figures, the probabilities estimated by the financial markets for a **25-basis-point interest rate rise** by the Federal Reserve at its 15–16 September meeting have risen to a range of between **58 per cent and 70 per cent**. Within the FOMC, there is a marked divide between the hawkish stance expressed by Chairman Kevin Warsh at Jackson Hole and the more cautious position of Governor Christopher Waller.

Japanese Yen (JPY) and the Bank of Japan

The yen has been the standout performer, appreciating by 3.9 per cent against the dollar over the last three months. The USD/JPY cross fell from 160.53 on 10 June to 154.34 on 9 September, reaching its lowest level in seven months.

Key factors include:

- **Expectations of a BOJ rate rise:** Members of the Bank of Japan's Policy Board, including Kazuyuki Masu and Hajime Takata, have argued for the need to accelerate monetary normalisation and correct negative real interest rates, whilst also suggesting rate rises exceeding the traditional 25 basis points or consecutive rate hikes. Market participants estimate a **77 per cent** probability of a rate rise **to 1.25 per cent** at the 17 September meeting. A Reuters poll showed that 97 per cent of economists expect the BOJ to raise rates to 1.25 per cent on 18 September (from 1.00 per cent), up from 57 per cent in a previous poll. The terminal rate is now expected to reach 1.75% by the second quarter of 2027, three months earlier than previously forecast.
- **Co-ordinated US-Japan intervention:** Data from the Japanese Ministry of Finance (MOF) indicate that holdings of foreign securities fell by **\$87.8 billion** in August, confirming the sale of US Treasuries to finance record yen-buying interventions totalling **15.4 trillion yen** carried out between July and August.
- **Unravelling the carry trade:** The surge in the yen has led forex traders to wonder which currency should replace it as the funding currency for the carry trade.

Euro (EUR) – The ECB's Restrictive Stance Supports the Currency

The EUR/USD cross has gained 0.84% over three months, rising from 1.1535 to 1.1632, with the exchange rate fluctuating within a range of 1.1324 to 1.1679. The **EUR/USD** cross is trading between **1.1619 and 1.1626**. On 10 September 2026, the **European Central Bank** decided to raise the interest rate by **25 basis points, bringing it to 2.50 per cent** to counter exogenous inflation driven by energy prices.

ECB staff have updated the macroeconomic projections:

- **Inflation:** Maintained at **3.0% for 2026**, but revised upwards to **2.5% for 2027** and **2.1% for 2028**.
- **GDP growth:** Revised to **0.9 per cent for 2026** and **1.4 per cent for 2027**.

President **Christine Lagarde** reiterated that the euro area economy had shown good resilience in the second and third quarters of 2026, but warned that the conflict in the Middle East would keep inflation above the 2% target for an extended period.

Key factors:

- **ECB rate hike:** The ECB confirmed expectations of a 25 bp hike, bringing the deposit rate to 2.50 per cent on 10 September; markets are pricing in two further hikes by the end of the year. Traders expect a rate of 3.1 per cent by the end of 2027.
- **Resilient growth in the Eurozone:** Despite higher energy costs, economic activity in the Eurozone has held up better than expected and bank lending accelerated in July.
- **Inflation risk:** Core inflation has fallen to 2.4 per cent, although producer prices are rising faster than consumer prices – a sign of a possible acceleration in the coming months.

British Pound (GBP) – Solid but Fragile

The **pound** remains stable at around **1.3523–1.3540 against the dollar**. During a parliamentary hearing before the Treasury Committee, Bank of England Governor **Andrew Bailey** rejected the idea that a cycle of rate rises is inevitable or unconditional, emphasising that the yield curve incorporates a substantial energy 'risk premium'. The GBP/USD cross has risen by 1.32 per cent from 1.3366 to 1.3542 over three months, hitting a high of 1.3675 on 21 August before pulling back. The pound's recovery, however, appears 'fragile' as the Bank of England may be lagging behind its G7 counterparts in tightening monetary policy.

Furthermore, pressures on the bond market and the UK property sector remain high:

- The UK has placed £4.25 billion in **30-year Gilts at a yield of 5.8168 per cent**, the highest level since 1998.
- Residential mortgage rates in the UK have risen by around **75 basis points** since the start of hostilities in Iran, marking the sharpest increase among G7 countries.
- The Bank of England's **Bank Rate** remains at **3.75 per cent**, with the Monetary Policy Committee deeply divided between those in favour of further tightening (Megan Greene) and those favouring a cautious approach (Dave Ramsden, Alan Taylor).

Canadian Dollar (CAD) – The Shadow of the Trade War

The USD/CAD cross rate has fallen from 1.3939 to 1.3802, representing a 0.98 per cent appreciation of the CAD, with the exchange rate fluctuating within a wide range of 1.3763–1.4248 over the past three months.

The loonie is caught in a tug-of-war between two forces:

- **Positive factors:** Oil prices above USD 100 per barrel are expected to support the commodity-linked currency, and the Bank of Canada's policy rate stands at 2.25 per cent with expectations of a rise.
- **Negative factors:** The United States has banned imports of a wide range of Canadian alcoholic drinks, motorbikes and dairy products, sharply escalating

the trade dispute. The tariffs now affect sectors accounting for US\$20 billion (5 per cent) of Canadian exports to the US.

Swiss Franc (CHF) – The Weakest G7 Currency

The USD/CHF cross rose from 0.7996 to 0.8099, representing a 1.29 per cent depreciation of the CHF – making it the weakest G7 currency of the quarter.

The franc is being used as an alternative funding currency for carry trades following the yen's rally. The SNB's monetary policy rate remains at zero, with just 50 basis points of tightening priced in by the end of 2027. The real policy rate is close to -1 per cent, and the real yield on 10-year Swiss government bonds remains the only negative real yield amongst the G10 nations.

Forex Market Movers: Week 11–18 September 2026

Summary

The coming week is dominated by a **triple concentration of event risk**: the decisions by the Fed (Wednesday 16th), the BoE (Thursday 17th) and the BOJ (Friday 18th) – each with a different direction and each capable of significantly moving the market. The key data point that could determine the outcome of the FOMC meeting is the **US CPI for August, due out tomorrow** (Friday 11th), with the consensus forecast at +0.4% m/m headline and +0.2% m/m core. SOFR futures are pricing in a **100%** probability of **a Fed rate rise in September** and a 90% probability of three rate rises by March 2027. Weekly implied volatility on EUR/USD has jumped from 4.8 to 6.5 – almost double the level seen ahead of the July FOMC meeting.

Friday 11 September – “The Data That Will Determine the Fed's Decision”

Time (GMT)	Event	Consensus	Previous	FX Impact
06:00	UK GDP (July)	0.0% m/m	+0.4% m/m	GBP
08:30	US US CPI (August) headline m/m	+0.4%	+0.1%	All currency pairs
08:30	US CPI headline y/y	+3.4%	+3.4%	USD
08:30	US Core CPI m/m	+0.2%	+0.2%	All currency pairs
08:30	US core CPI y/y	+2.4%	+2.5%	USD
08:30	US Weekly real earnings	-	0.0%	USD
10:00	US Michigan Consumer Sentiment (preliminary, Sept.)	51.0	51.7	USD
10:00	US Michigan Inflation Expectations (1st) -		+4.0%	USD
10:00	US Michigan Inflation Expectations (5th)		+3.3%	USD
14:00	US Treasury Statement (August)	-404 bn	-345 bn	USD

Why the CPI is so crucial: It is the latest 'hard' inflation data point ahead of the FOMC meeting. The overnight option tracking the CPI has reached its highest implied volatility since 29 July (the day of the previous Fed decision). If core CPI were to surprise on the upside, combined with oil prices above 100 USD/barrel, the likelihood of a Fed rate rise next week would increase further.

Tuesday 16 September – ‘Fed Day’

Time (GMT)	Event	Consent	FX Impact
07:00	UK CPI (August)	Up	GBP
18:00	US FOMC Decision + SEP	25bp rate rise (70% probability)	All currency pairs
18:30	US Warsh press conference		USD

Post-FOMC FX scenarios:

- **25bp rate hike + hawkish tone:** USD rises sharply, EUR/USD heading towards 1.1500, USD/JPY heading towards 156–157
- **25bp rate hike + cautious tone:** Subdued reaction, already priced in at 70–100%
- **Holding off (surprise):** Dollar falls sharply, EUR/USD heading towards 1.1800–1.1850, USD/JPY below 152

Wednesday 17 September – “BoE Day”

Time (GMT)	Event	Consensus	FX Impact
11:00	GB BoE decision	Holds at 3.75% (vote 6-3)	GBP
11:00	GB MPC Minutes	Focus on dissent	GBP

The BoE is expected to keep rates at 3.75% for the sixth consecutive time, with three MPC members (**Pill, Mann and Greene**) likely to vote for a hike. Attention will focus on any changes in the vote (a shift from 6-3 to 5-4 would be a very aggressive signal for the pound).

UK gas prices are now exceeding the **BoE's adverse scenario** (202 pence/therm vs 197 forecast as a peak in Q4), which could force the bank to recalibrate its communication.

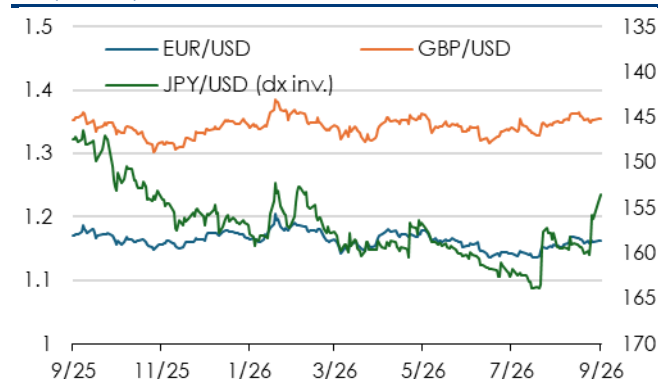
Thursday 18 September – “BOJ Day”

Time (GMT)	Event	Consensus	FX Impact
03:00	JP BOJ decision	25bp hike to 1.25% (97.5% probability)	JPY
06:30	JP Ueda press conference	JPY	

The BOJ is widely expected to raise rates to 1.25 per cent, but the real market mover will be **Governor Ueda's press conference**. Ueda is likely to adopt a hawkish stance, whilst cautiously explaining the need for further rate rises.

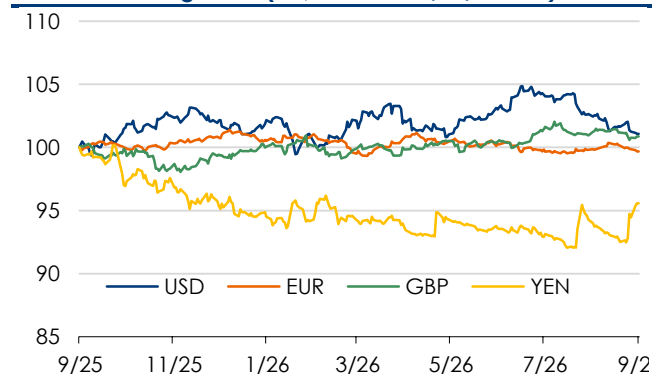
Board member **Kazuyuki Masu** warned today that the BOJ “may be forced to raise rates rapidly if inflation accelerates”, given that Japanese financial conditions remain accommodative. However, he added that “we do not foresee a sharp rise above 2%” – signalling that a 50bp hike is unlikely.

Euro, Pound, Yen vs USD



Source: WS Datastream

Nominal Exchange Rate (BIS, rebased 11/09/25=100)

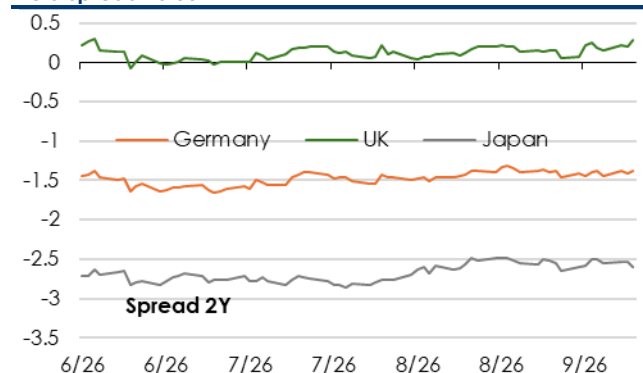


Source: WS Datastream

G10 Forex Forecasts

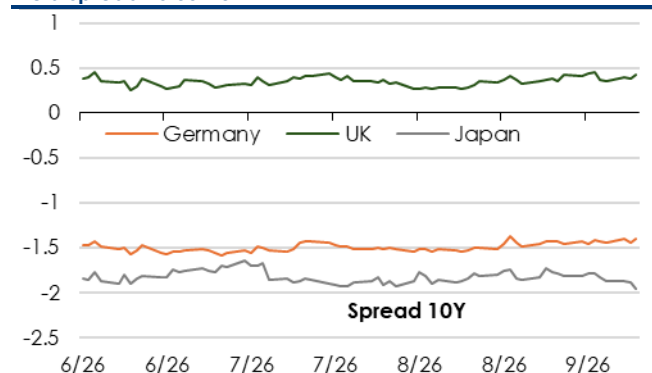
	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028	Q2 2028
WD EUR/GBP	0.8563	0.8684	0.883	0.8866	0.8911	0.8923	0.894	0.8944
WD EUR/NOK	11.0345	10.9309	10.8257	10.726	10.6706	10.6158	10.5509	10.4964
WD USD/CAD	1.4066	1.4319	1.433	1.4105	1.3954	1.3934	1.382	1.357
WD USD/JPY	159.7091	159.7902	159.5413	155.7251	149.7483	145.6032	143.5761	140.5335
WD EUR/CHF	0.9284	0.9243	0.926	0.9219	0.9209	0.9193	0.9183	0.9164
WD EUR/SEK	10.9652	10.8592	10.7283	10.5072	10.3504	10.2194	10.1496	10.1012
WD USD/CHF	0.81	0.8196	0.82	0.8043	0.7952	0.7947	0.7884	0.7728
WD AUD/USD	0.7053	0.7047	0.7049	0.7142	0.7185	0.7147	0.715	0.7249
WD GBP/USD	1.3386	1.2986	1.279	1.2927	1.2997	1.2964	1.3029	1.3258
WD NZD/USD	0.587	0.5878	0.5993	0.6186	0.6299	0.6314	0.6346	0.6465
WD EUR/AUD	1.6254	1.6004	1.6022	1.6048	1.6119	1.6186	1.629	1.6357
WD EUR/CAD	1.6122	1.6148	1.6185	1.6166	1.616	1.6119	1.6096	1.6091
WD EUR/JPY	183.0808	180.1947	180.1875	178.4847	173.4246	168.4352	167.2297	166.638
WD EUR/NZD	1.9529	1.9185	1.8846	1.853	1.8385	1.832	1.8353	1.8341
WD EUR/USD	1.1459	1.1277	1.1294	1.1462	1.1581	1.1568	1.1648	1.1858

Yield spread vs UST2Y



Source: WS Datastream

Yield spread vs UST10Y



Source: WS Datastream

Appendix

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