

The FX Trader BoJ disappoints JPY bulls

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Summary: The Bank of Japan hiked rates and guided for more in its monetary policy statement, but a split decision punched the JPY lower. Elsewhere, the BoE was somewhat more dovish than expected and overhauled its QT programme, pushing sterling a bit lower.

Bank of Japan hikes, but a split decision and seeming lack of urgency weigh. The Bank of Japan did deliver the expected 25 basis point hike, but a 7-2 decision in favour of the hike raised eyebrows and the monetary policy statement delivered little sense of urgency even as it noted that underlying inflation was nearing 2%, that medium- and longer-term inflation expectations are rising and that price rises are being passed through from higher input costs and wages. The JPY sold off across the board immediately on the announcement and release of the new policy statement. There may have been some additional pent-up energy in the USDJPY reaction from the USD rally after the FOMC meeting, ironically even as US short-dated yields backed out much of the reaction to the meeting by late Thursday, in part as oil prices continued to retreat. Powerful risk on and the surge in US tech stocks may also be a JPY headwind. See more on USDJPY below. The squeeze in JPY crosses is on after the recent market repositioning, but I suspect the Bank of Japan (in cahoots with the Ministry of Finance) will draw a line in the sand well ahead of 160.00 – let's see what the Ueda press conference and today's/this week's close brings.

Key takeaways and what to watch for from here: This update written as Bank of Japan governor Ueda is out speaking at the post-meeting press conference – as of this writing, the JPY is getting some traction again as he is saying that decisions are meeting-by-meeting, with no set pace in mind, clearly wanting to preserve some optionality. Ueda needs to have an eye on the JPY level at this conference and draw enough of a rhetorical line in the sand to impress this market, otherwise the BoJ will have a fresh headache if USDJPY is pulling up to 160.00 again – still looking for resistance to come in somewhere before long even after this setback for the bullish JPY case – see chart comments below.

Chart focus: USDJPY USDJPY has backed up sharply on the combination of the USD rally after a more hawkish than expected FOMC meeting this week and now a less hawkish than expected decision on the BoJ hike. The next key resistance area as the JPY crosses squeeze higher is perhaps the 200-day moving average into 158.40 or so, which also coincides fairly well in the daily Ichimoku technical picture with the lagging span line (green) approaching the price bars from August and the cloud levels (shaded area just above the 200-day moving average also starting coming in near this level. Failing that, the focus will quickly shift to the psychological 160.00 area above.

Bank of England more dovish than anticipated. The Bank of England meeting was on the dovish side of expectations even as the bank said that rates may need to rise if the energy shock persists and leads to second round effects. But the odds of a November rate hike were set a bit lower with Bailey's noncommittal language in the presser and the bank's statement that there was "little evidence so far of material second-round effects". As well, the BoE announced a more significant than expected overhaul of its QT programme as it announced a halt to all sales for six months and a complete stop of "long-dated" gilt sales, which in this case seems to mean part of its holdings of the 2049 gilt and then all gilts with later maturities. The benchmark 30-year gilt yield plunged 12 basis points on the news. Sterling sold off, but it was hardly a rout and lower global bond yields and less pressure on the UK gilt market are

perhaps a modest net positive for the currency. There is quite the line in the sand now in EURGBP just above 0.8600 – the massive old range low that was taken out in July and since has served as resistance.

FOMC reaction largely erased. The FOMC meeting was rightly read as a hawkish one, with the Fed's economic projections suggesting a Goldilocks combination of a slow path of core PCE disinflation (down to the 2.0% target by 2029, even if the 2028 projection was raised slightly) while unemployment would remain at current low levels for the next three years and growth would remain steady and even higher than originally anticipated for next year. And yet we have already erased most of the reaction to the meeting at the front end of the US treasury yield curve on a mere sell-off in the oil price, suggesting that the market is not convinced that there is more hawkishness to price into the forward curve. That is fair for now, given that we are already pricing two additional hikes by mid-next year beyond what the Fed itself is saying it will do (sans Warsh, who explicitly noted his lack of participation in the dot plot projections of Fed policy). The technical USD picture looks bullish here, but without a fresh yield impulse, will this move quickly fizzle out without fresh incoming data fuel?

Looking ahead Next Thursday we have three central bank meetings – the SNB, Riksbank and Norges Bank. Guidance is key from the Riksbank in particular after the recent sharp mark-down in the Swedish krona, which is beginning to look sufficiently large to trigger some unease at the bank. The market is not looking for a hike from the Riksbank until the November meeting. In the meantime, Norges Bank is expected to hike next week and even so, NOKSEK rally looks extraordinarily stretched without strong support from some new surge in crude oil prices. The SNB is an interesting one as well after the prior talk that the bank might hike until beyond 2027 to now angling for a hike as early as the March meeting. The franc is weak, but why would the SNB surprise hawkish when core CPI is still running at sub 0.5% YoY levels?

Next week is a quiet one for incoming US data, with only preliminary S&P Global PMI's on Wednesday the minor highlight. In the meantime, risk sentiment and oil prices could set the agenda across markets.

It is amazing how strong the JPY reading remains despite the tremendous backfilling we now have – reminds us of the size of the shock lower. But now the JPY will need to take a stand if it is to not rapidly lose all of its positive impulse from the rally. Elsewhere, interesting to note that the CNH continues to move stronger even against a strong US dollar – this is ahead of the September 24 Trump-Xi summit and looks like a bit of a “flex”. The SEK weakness is looking excessive with the easing of yield pressures here and strong risk sentiment – an important week ahead with Riksbank next Thursday.

Table: NEW FX Board Trend Scoreboard for individual pairs.

EURUSD and USDCAD have followed GBPUSD in trending in the US dollar's favour in the last couple of days. The EURUSD move opens up the rest of the range lower to 1.1325, while GBPUSD would eye 1.3300, 1.3140 and then the massive 1.3000 level if it continues lower. Elsewhere, watching gold closely for the potential for a flip back to positive after it recovered so handily from the FOMC meeting inspired dip.

Source: <https://www.home.saxo/content/articles/forex/the-fx-trader-boj-disappoints-jpy-bulls-18092026>