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USD upside risks over short-term

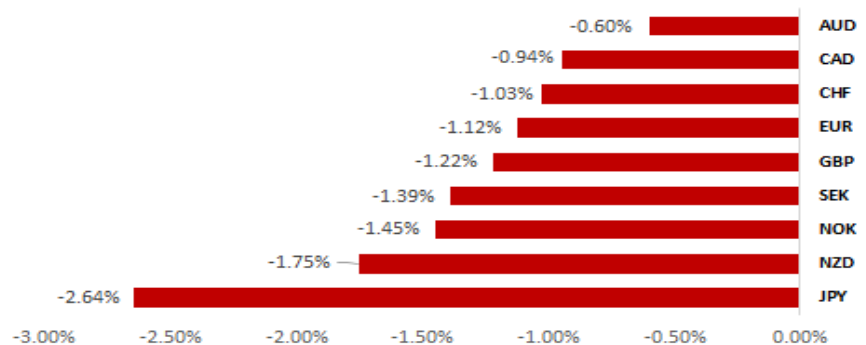
FX View: We are closing out this week with positive momentum building for the US dollar. The Fed rate hike this week was expected and US yields jumped heading into the decision, so the post-FOMC move higher in rates has been more modest. We see scope for further dollar gains over the near-term. The BoJ hiked today but failed to meet lofty hawkish expectations expected by the markets while the BoE yesterday surprised the markets by announcing an overhaul to its QT plans that means less supply into the market of longer-dated Gilts. A Scott Bessent-style rejigging of supply plans that saw longer-dated yields fall sharply. The action was intended to alleviate upward pressure on yields which could weigh on pound performance over the short-term. However, we have not altered our dollar forecasts notably, especially further out the profile as most other G10 central banks are likely to hike further over the coming months. As a result of current central bank policy expectations, front-end rate spreads do not suggest any notable dollar strength. However, upside risks relate to the potential for a rates overshoot in the US, a terms of trade boost on energy risks, growing political uncertainties in France and risks of a pick-up in FX volatility due to risk asset correction.

Trade Ideas: We are recommending a new long USD/SEK trade idea, and have taken profit on our short EUR/JPY trade recommendation.

JPY Flows: This week we analyse the monthly International Transactions in Securities that showed another strong NISA-related foreign equity buying and strong buying of foreign bonds by Japan Trusts. GPIF is not repatriating!

Rates Repricing: Are equities approaching a vulnerability threshold?: With the UST 10-year yield hitting a 19-year high this week, we examined whether a sharp increase in yields has historically impacted equity market performance and spilled over into the FX market.

BROAD-BASED USD GAINS ACROSS G10 WITH JPY UNDERPERFORMING



Source: Bloomberg, as of 18th September 14:20 BST (Weekly % Change vs. USD)

USD: Impact on USD forecasts following Fed rate hike

US dollar advance has been modest so far

The US dollar has advanced by over 1.0% this week with the DXY index hitting level last seen at the end of July when the dollar was falling in response to USD/JPY selling intervention by the MoF in Japan. The initial trigger for the advance this week – the FOMC rate hike and communications – has been reinforced today by the BoJ's communication following its 25bp rate hike that was accompanied by communications that failed to convince investors that the BoJ has embarked on a sustained faster pace of tightening. The BoE yesterday also followed the lead from the Scott Bessent buyback announcement in August by making changes to its QT program that helps improve the supply/demand outlook that saw yields and the pound drop. Do the developments this week warrant a rethink to our view that the US dollar will weaken modestly over the forecast horizon? As a reminder – our current FX forecasts ([here](#)) show the DXY index falling 4.2% by Q2 2027 relative to today's spot level.

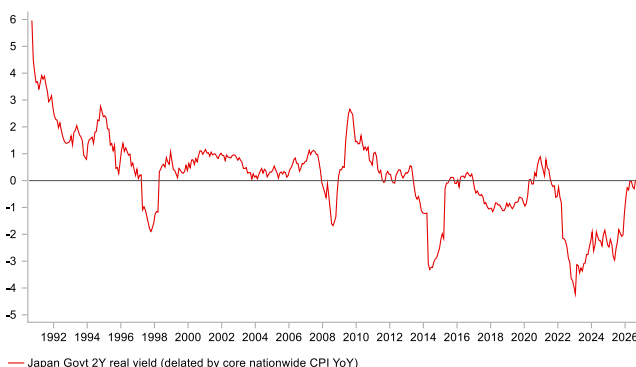
Unsurprising BoJ failed to meet hawkish market pricing but upside for USD/JPY still limited from here

Firstly, we see scope over the near-term for the US dollar to advance further versus the yen. The reaction today to the BoJ communications and Governor Ueda's press conference highlighted the fact that current market pricing may have become excessive. The bar was low for the BoJ delivering a less hawkish message. The two dissents opposing the hike are the newest policy board members (Toichiro Asada & Ayano Sato) and were chosen by the Takaichi administration for the known reflationist leanings. The two biggest hawks (Hajime Takata & Naoki Tamura) will leave the policy board in July next year and will likely be replaced by individuals with more dovish leanings. Hence, the ability for more active hikes will become more difficult from August next year. Is the BoJ moving faster now? Governor Ueda hinted that might be the case but not enough to convince the markets. We expect the next hike in January 2027 and then in June, taking the policy rate to 1.75%. Near-term USD/JPY could advance further but the rates curve is reasonably priced and further hikes and intervention risks will curtail the scope for the move higher in USD/JPY. We would still expect USD/JPY buying to fade ahead of a break above the 160.00-level.

FOMC hikes but median dots profile still below market pricing and based on assessment of risks today

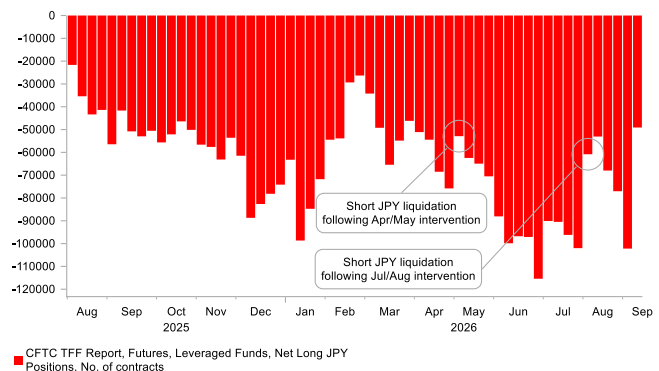
The communication from Fed Chair Warsh on Wednesday when the Fed hiked 25bps as expected was viewed as hawkish. The primary comment that the hike had "removed a dose of accommodation" was an indication that accommodation still existed and hence there was more to do. But that comment was only consistent with the median dots profile which signalled another hike this year anyway. To have suggested anything less would have been inconsistent. One further hike this year and then no change in 2027 before one cut in 2028 and one cut in 2029 is a profile that is still below current market pricing. By mid-2027 the OIS curve shows a fed funds rate reaching 4.625%.

2YR REAL YIELD TURNS POSITIVE; HIGHEST SINCE 2021



Source: Bloomberg, Macrobond & MUFG GMR

RENEWED JPY SELLING CAPACITY HAS EMERGED



Source: Bloomberg, Macrobond & MUFG GMR

Beyond the one-year period, the market expects little change in the fed funds rate underlining the higher for longer view. So while the communications from Warsh and the SEPs were viewed as hawkish, there is still a notable gap relative to market pricing. We believe that will likely curtail the upside potential for US rates over the short-term. As always beyond the short-term, incoming economic data will determine whether market rates rise or remain elevated or start to converge with the median dots profile. Of course it's not just about the incoming data. The Fed's stance, like other central banks at the moment, is closely tied to the developments in energy markets. We originally assumed conflict de-escalation and energy prices declining ahead of the mid-terms. That was one factor we believed would align with a weaker US dollar. That assumption clearly needs altering. We still assume the worst-case scenario is avoided (much higher from here) but the profile has shifted higher and the decline in crude oil prices is more modest and hence inflationary risks are generally higher.

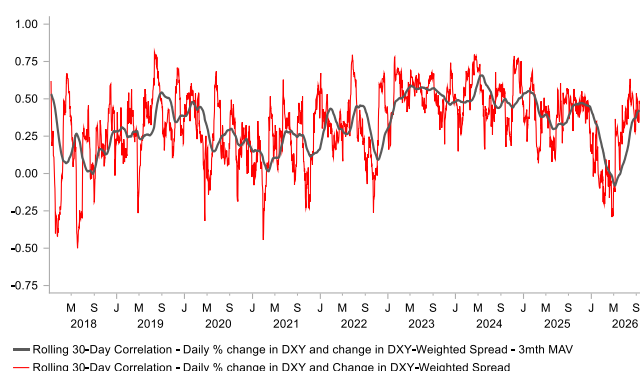
But higher energy prices impacts everywhere and the impact on rate spreads is much less

While our views now incorporate two hikes by the Fed (this week and December) we have also altered our views across a number of key G10 countries. Most importantly from an FX perspective, we have added two additional rate hikes by the ECB and now expect the policy rate to reach 3.00% by year-end assuming now that we get three consecutive 25bps rate hikes from last week, October and December. That's more aggressive than market pricing and the consensus in the market and will be key in providing support for EUR and the justification for maintaining a gradual appreciation trend. We are also raising our RBA policy rate profile. We had assumed just one further hike this year but now expect the RBA to hike twice, bringing the policy rate to 4.85%. RBA Governor Bullock spoke today and stated that "upside risks to inflation appear to be materialising". We have also added two rate hikes to our BoE policy rate forecasts which means our policy rate will 75bps higher by mid-2027 than we previously assumed. The BoE is lagging and the change to QT could undermine the pound over the near-term. Further out actions by the BoE will provide support. All G10 central banks are priced for at least one hike through the remainder of the year (bar the SNB) and looking across our G10 rate spreads there are no anomalies that point to required FX adjustments – bar USD/JPY where there's scope for a further move higher.

Scale of USD drop by mid-2027 maintained but near-term upside risks

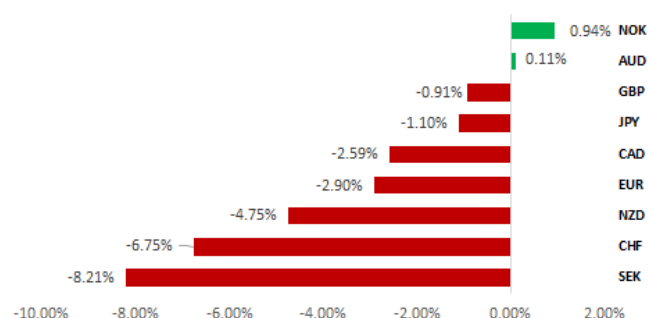
So we are largely maintaining our US dollar view that implied around a 4% drop in DXY by the middle of year. The risks to our forecasts are more over the short-term where there are risks of the rates move in the US overshooting that could see positioning and momentum extend dollar strength beyond our near-term forecasts. Terms of trade related gains for the US dollar if crude oil extends notably higher is another upside risk for the US dollar over the short-term, especially versus the euro and yen. We are also mindful of EUR downside risks related to building political uncertainty in France.

STRENGTHENING USD / RATE SPREAD CORRELATION



Source: Bloomberg, Macrobond & MUFG GMR

G10 FX VS USD SINCE START OF US-IRAN CONFLICT



Source: Bloomberg & MUFG GMR, as of 12:15 BST 18th Sept

European FX: Regional monetary policy divergence impacting FX

European currencies weaken vs. USD after Fed update which helps to ease US policy risk premium.

European currencies have weakened against the USD over the past week after the Fed finally started to hike rates in response to the energy price shock. The unanimous decision to hike rates, and plans to raise rates at least one more time have helped to lift short-term US yields and boost the Fed's inflation fighting credibility under new Chair Kevin Warsh. It further helps to ease initial investor concerns over threats to the Fed's policy independence when setting policy at a time when President Trump continues to call on/threaten the Fed for lower rates. The Fed's policy action could have encouraged market participants to scale back the size of the US policy risk priced into the USD. It follows the US Treasury's decision on 19th August to expand the size of long-term bond buybacks that had previously triggered a USD sell-off as market participants moved to price in a bigger US policy risk premium.

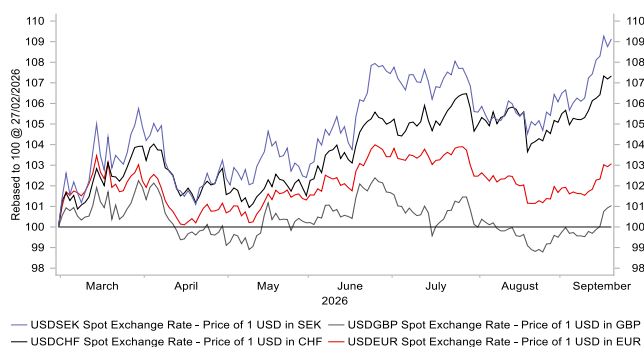
Growth resilience outside of US including in Europe is helping to dampen yield spread widening in favour of stronger USD.

However, support for the USD from higher US yields has been partly offset by building expectations for active policy tightening from major central banks outside of the US curtailing the widening of yield spreads in favour of stronger USD. The resilience of economic growth in Europe is encouraging both the BoE and ECB to make policy more restrictive in order to dampen upside inflation risks. The ECB indicated at their last policy meeting that they are considering raising rates into 'mildly restrictive territory', which we judge to be closer to 3.00%. Short-term yield in the euro-zone have been consolidating close to recent highs over the past week reflecting market expectations for the ECB to deliver three to four more hikes. It is roughly similar to US rate market expectations for three more Fed hikes. So long as economic growth remain resilient in the euro-zone, downside risks for EUR/USD from moves yield spreads are likely to remain contained. The pair is still trading between 1.1400 and 1.1800 as it has done over the past year.

BoE is now lagging behind both ECB & Fed in tightening policy but should soon begin hiking in November. Policy divergence could weigh more on GBP in near-term.

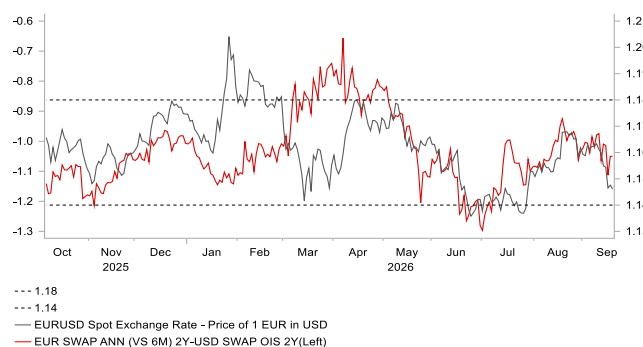
In contrast to recent ECB and Fed decisions, the BoE decided to leave rate son hold again this week. It is the only major G4 central that has not yet raised rates in response to the energy price shock. The widening policy divergence may have contributed to the GBP sell-off after the BoE's latest policy meeting. Cable extended its decline following on from the move lower after the FOMC meeting hitting a low of 1.3336, while EUR/GBP attempted to break back resistance at the 0.8600-level. The GBP was also undermined by the move lower in UK yields after the MPC meeting both at the short and long-end of the Gilt curve. The move lower in short-term yields reflects some initial disappointment that the BoE's policy update ([click here](#)) was not even more hawkish although there was a clear indication that MPC members are shifting in favour of a hike. Four out of the six MPC members who voted to leave rates on hold indicated that they are considering raising rates including Governor Bailey. It supports our forecast for a

FX PERFORMANCE DURING US-IRAN CONFLICT



Source: Bloomberg, Macrobond & MUFG

EUR/USD REMAINS RANGE BOUND



Source: Bloomberg, Macrobond & MUFG GMR

rate hike at the next MPC meeting in November if energy prices remain elevated. The dovish market reaction is more a reflection that market pricing for 4-5 BoE hikes had already gone too far in the near-term. Unlike recent rhetoric from the ECB and Fed, the BoE is still placing more emphasis on the role played by tightening financial conditions in helping to dampen upside inflation risks and thereby dampening the need for policy action. The BoE's is also somewhat surprised by the limited evidence of second round inflation effects although cautions that may not remain the case the longer energy prices remain elevated.

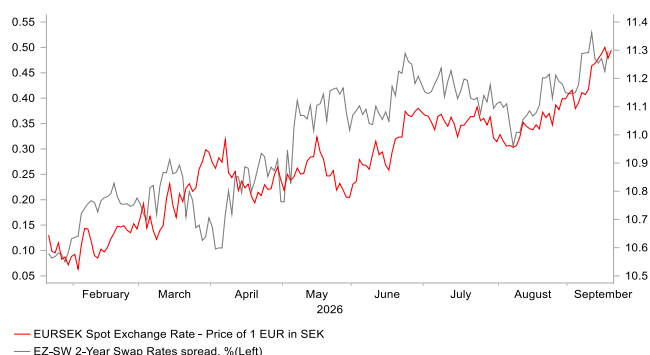
Long-end of Gilt curve supported by BoE's updated QT plans adding to downward pressure on UK yields & GBP.

Yields at the long-end of the curve were also driven down by the BoE's updated plans for the QT. The biggest beneficiaries were Gilts at the ultra-long end with the 30-year yield dropping sharply by almost 10 bps. The move lower in long-term yields reflected the scaling back of supply expectations. Firstly, the BoE announced that it now plans to keep GBP120 billion of gilts maturing in 2049 or later on their balance sheet, and use them as matching assets against future bank note issuance. It removes a potential future source of ultra-long end supply from ever hitting the market. Secondly, the BoE announced that GBP146 billion of Gilts maturing between 2035 and 2049 will be sold at an annual pace of GBP20 billion. While it is a similar pace to sales over the previous 12 months, the BoE now plans to stop these sales from directly hitting the market. Instead, the BoE are finalizing a plan to sell the Gilts back to the government through the DMO. The government purchases will then be funded by additional debt issuance. While there should be limited impact on the overall supply of debt, it would allow the government to better time and adjust the maturity of supply hitting the market. The government may choose to shorten the maturity of debt issuance to ease upward pressure on long-term yields.

Government involvement in BoE Gilt sales could raise some concerns over desire to hold down yields and undermine confidence in GBP. Some similarities to US Treasury plans for expanded bond buybacks which weighed on USD.

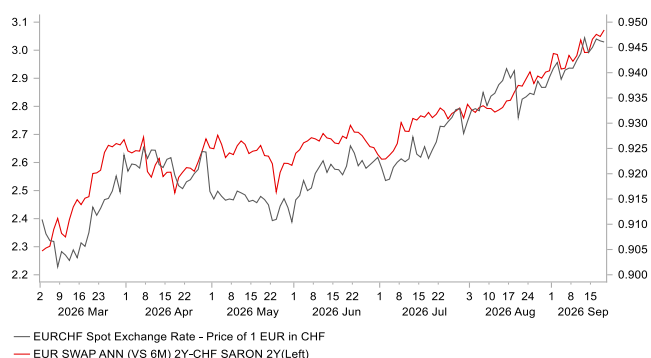
For this reason, it could be viewed as a form of yield curve control similar to the US Treasury's recent decision to expand long-term bond buybacks which will likely be funded by issuing more short-term debt. The Fed had previously attempted to flatten the US yield curve between 2011 and 2012 ([click here](#)). Still, the size of the BoE's planned annual debt sales of GBP20 billion are relatively small compared to the size of Gilt issuance. For example, the DMO is planning total issuance of GBP246billion for the current fiscal year. It would suggest that the market impact from diverting Gilt sales should be relatively modest. Nevertheless like the US Treasury's bond buybacks announcement, the involvement of the UK government in efforts to dampen long-term yields could be viewed negatively and contribute to a weaker GBP although to a lesser extent than the USD's reaction to the US Treasury's extended bond buyback plans. The BoE and government would argue that it is justified to avoid the risk of disruptive price action in less liquid parts of the Gilt curve. The UK government also has one of the longest average debt maturities in the developed world at around 14-15 years

EUR/SEK VS. SHORT-TERM YIELD SPREAD



Source: Bloomberg, Macrobond & MUFG

EUR/CHF VS. SHORT-TERM YIELD SPREAD



Source: Bloomberg, Macrobond & MUFG GMR

which is roughly double for most other major sovereign issuers. It potentially gives the government more justification/leeway to shorten debt issuance if they desire. Overall, the latest negative developments for the GBP support our forecast for EUR/GBP to move higher heading into year end.

Riksbank & SNB expected to leave rates on hold in week ahead remaining laggards in tightening cycle. Widening yield spreads have encouraged weaker CHF and SEK this year.

Like the BoE, the smaller European central banks of the Riksbank and SNB are expected to continue lagging behind in tightening policy when they meet in the week ahead. We expect both the Riksbank and SNB to leave rates on hold. Since the US-Iran conflict began in February, the SEK and CHF have been the two worst performing G10 currencies. Widening yield spreads are contributing to weaker domestic currencies. Lower yields on offer in Switzerland and Sweden, and the lack of urgency to tighten monetary policies are encouraging their relative appeal as funding currencies for carry trades. EUR/CHF and EUR/SEK have both been tightly linked to short-term yields spreads with both pairs lifted by the ECB's relatively more pro-active approach to tightening policy in response to the energy price shock. Recent media reports have even indicated that the SNB is planning to leave rates on hold well into next year.

Riksbank appears closer to hiking rates later this year. Unless there are hawkish policy surprises both currencies remain vulnerable to further weakness in near-term.

One similarity between Switzerland and Sweden is inflation in both countries is currently undershooting central bank targets at 0.8% and 0.3% respectively in August. However, the Riksbank estimates that inflation would be closer to their 2.0% target excluding the impact from government policy measures. It is one reason why the Riksbank has signalled that it may have to raise rates later this year if higher inflation over the summer proves to be the start of a larger and more lasting upturn. Unless there are hawkish surprises from the SNB and/or Riksbank in the week ahead both currencies remain vulnerable to further weakness in the near-term.

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
USD	21/09/2026	11:30	Fed's Goolsbee Speaks				!!
CAD	21/09/2026	16:20	BoC Governor Macklem Speaks				!!
AUD	22/09/2026	04:10	RBA's Bullock-Fireside Chat				!!
GBP	22/09/2026	07:00	Public Sector Net Borrowing	Aug	--	1.8b	!!
EUR	22/09/2026	15:00	Consumer Confidence	Sep P	--	- 15.5	!!
USD	22/09/2026	15:05	Fed's Williams Speaks				!!!
EUR	23/09/2026	09:00	S&P Global Eurozone Manufacturing PMI	Sep P	--	52.7	!!!
EUR	23/09/2026	09:00	S&P Global Eurozone Services PMI	Sep P	--	51.6	!!!
GBP	23/09/2026	09:30	S&P Global UK Manufacturing PMI	Sep P	--	51.7	!!!
GBP	23/09/2026	09:30	S&P Global UK Services PMI	Sep P	--	52.5	!!!
USD	23/09/2026	14:45	S&P Global US Composite PMI	Sep P	--	56.0	!!
EUR	23/09/2026	17:30	ECB's Lane Speaks				!!!
AUD	24/09/2026	02:30	Employment Change	Aug	20.0k	-15.8k	!!!
CHF	24/09/2026	08:30	SNB Policy Rate		0.00%	0.00%	!!!
SEK	24/09/2026	08:30	Riksbank Policy Rate		1.75%	1.75%	!!!
CHF	24/09/2026	09:00	SNB's Schlegel Speaks				!!!
NOK	24/09/2026	09:00	Deposit Rates		4.50%	4.25%	!!!
EUR	24/09/2026	09:00	Germany IFO Business Climate	Sep	--	88.8	!!
USD	24/09/2026	09:10	Fed's Williams Speaks				!!
CAD	24/09/2026	13:30	Retail Sales MoM	Jul	-0.8%	0.6%	!!
USD	24/09/2026	13:30	Current Account Balance	2Q	--	-\$226.8b	!!
USD	24/09/2026	13:30	Initial Jobless Claims		--	--	!!
GBP	24/09/2026	14:30	BoE's Breeden Speaks				!!
GBP	24/09/2026	15:00	BoE's Lombardelli Speaks				!!
USD	24/09/2026	15:00	New Home Sales	Aug	615k	607k	!!
EUR	25/09/2026	09:00	M3 Money Supply YoY	Aug	--	3.4%	!!
USD	25/09/2026	13:30	Durable Goods Orders	Aug P	-0.3%	1.1%	!!
USD	25/09/2026	15:00	U. of Mich. Sentiment	Sep F	--	47.8	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- Market participants will be closely watching comments from Fed and BoE officials in the week ahead after this week's after their latest hawkish policy updates. The Fed's decision to begin hiking rates was unanimous. Fed Vice Chair Williams is scheduled to speak on a number of occasions in the week ahead. He will provide further insight into the Fed's decision to begin tightening policy, and is likely to indicate how much further he believes policy may need to be tightened. In the UK, the BoE left rates on hold at their policy meeting but indicated that their tolerance for upside inflation risks is running thin. MPC members Breeden and Lombardelli are scheduled to speak in the week ahead. They both voted to leave rates on hold this month so their comments provide further insight into how closely they are to potentially voting for a hike at the next meeting in November.
- There are three central bank meetings in the week ahead in Europe. The Norges Bank is expected to be raised rates by 25bps to 4.50%. The updated guidance will be watched closely to see if the Norges Bank signals if further hikes are planned. In contrast, we expect the Riskbank and SNB to leave rates hold in the week ahead. The Riksbank has already signaled that a rate hike may be required later this year if they judge that higher inflation over the summer were to be the start of a larger and more lasting upturn in inflation. The updated guidance could provide a clearer signal over whether a hike will be delivered, and whether they plan to hike in November or December. Recent communication from the SNB has indicated that they are the most comfortable to keep leaving rate on hold into next year. It would be a big surprise if the SNB signaled it is starting to consider rate hikes and a greater tolerance for stronger CHF to dampen upside inflation risks.
- The main economic data releases in the week ahead will be the latest PMI surveys from the euro-zone and UK for September. Business confidence had improved over the summer alongside resilient economic growth, but may have been challenged recently by higher energy prices and rising interest rates.

New Trade Ideas

LONG USD/SEK – OPENED @ 9.8500 (TARGET @ 10.300 & STOP-LOSS @ 9.600)

Widening policy divergence lifts USD/SEK above important resistance level

We are recommending a new long USD/SEK trade idea. The USD has regained upward momentum over the past week following the Fed's long-awaited decision to begin raising interest rates. As a result, USD/SEK has moved above the 9.8000 level for the first time since last summer. This level has served as an important resistance point since President Trump's Liberation Day tariff announcement in April 2025. If the breakout is sustained, it could pave the way for further gains in USD/SEK into year-end. Unlike the Fed, the Riksbank is expected to lag behind in tightening monetary policy, a development that should continue to weigh on the SEK. Widening yield differentials and the negative energy price shock have already exerted significant downward pressure on the Swedish currency. The main risk to this view in the week ahead is that the Riksbank delivers a markedly more hawkish policy update, either by raising rates sooner than expected and/or signalling the need for a more aggressive series of hikes to bring inflation under control. Even so, the long USD/SEK trade recommendation should prove relatively resilient if risk assets undergo a deeper correction, particularly if bond yields and energy prices continue to move higher.

Closed Trade Ideas

SHORT EUR/JPY – CLOSED @ 180.90 (OPENED @ 181.30, TARGET @ 176.00 & STOP-LOSS @ 184.30)

Downside risks for EUR/JPY have eased after BoJ update although still appears topky

We have decided to close our short EUR/JPY trade idea after the BoJ disappointed market expectations for more forceful guidance signalling that it intends to continue raising rates at a faster pace. Alongside the hawkish repricing of yields outside Japan, the BoJ's policy update has triggered renewed JPY selling. This renewed weakness in the JPY is likely to increase pressure on Japanese policymakers to intervene in the FX market and/or deliver further rate hikes if upside risks to inflation continue to build. Growing concerns over potential FX intervention should help limit further gains in USD/JPY and other JPY crosses as USD/JPY moves closer to the 160.00 level. At the same time, the sharp rise in global bond yields and higher energy prices are increasing the risk of a deeper correction in risk assets, which would typically provide support for the JPY. In light of these developments, we have decided to reduce our long JPY exposure and will wait for a more favourable opportunity to rebuild positions.

FX Portfolio

Trade idea	Notional	Entry Date	Entry Level	Current	S/L	Target	Spot P&L	Carry P&L	Portfolio Contribution
Closed Trades									
Long EUR/USD	USD 5mn	10/05/2024	1.0770	1.0840	1.0570	1.1070	32,498	-3,484	29,014
Long MXN/ZAR	USD 5mn	07/06/2024	1.0300	1.0050	1.0050	1.0850	-121,359	1,812	-119,547
Short EUR/JPY	USD 5mn	14/06/2024	168.00	171.10	171.10	162.50	-92,262	-2,194	-94,456
Long AUD/USD	USD 5mn	05/07/2024	0.6735	0.6585	0.6585	0.7035	-111,359	-1,544	-112,903
Long GBP/SEK	USD 5mn	12/07/2024	13.660	13.920	13.360	14.160	95,168	2,149	97,317
Short NZD/CHF	USD 5mn	02/08/2024	0.5170	0.5000	0.5270	0.5000	164,410	-215	164,195
Short NZD/CAD	USD 5mn	09/08/2024	0.8270	0.8430	0.8430	0.8030	-96,735	-1,578	-98,313
Short USD/JPY	USD 5mn	06/09/2024	143.30	142.80	146.30	138.30	17,446	-7,717	9,729
Long AUD/USD	USD 5mn	27/09/2024	0.6890	0.6810	0.6740	0.7100	-58,055	589	-57,466
Long USD/NOK	USD 5mn	11/10/2024	10.720	11.020	10.500	11.020	139,925	530	140,455
Long EUR/USD	USD 5mn	08/11/2024	1.0760	1.0570	1.0700	1.0100	88,290	3,857	92,147
Long USD/CAD	USD 5mn	06/12/2024	1.4090	1.4390	1.3850	1.4550	106,458	1,471	107,194
Long GBP/USD	USD 5mn	10/01/2025	1.2250	1.2550	1.2550	1.1750	-122,449	-885	-123,334
Short EUR/JPY	USD 5mn	07/02/2025	157.60	161.89	163.00	150.00	-171,320	-9,487	-180,807
Long USD/SEK	USD 5mn	14/03/2025	10.120	9.9200	9.9200	10.420	-98,814	5,245	-93,569
Long USD/CAD	USD 5mn	28/03/2025	1.4300	1.4050	1.4050	1.4750	-87,413	1425	-85,988
Long EUR/NZD	USD 5mn	25/04/2025	1.9040	1.9035	1.8700	1.9600	-1,314	-3,305	-4,619
Short USD/JPY	USD 5mn	16/05/2025	145.95	144.00	149.40	138.30	66,804	9,179	57,625
Long USD/ZAR	USD 5mn	13/06/2025	17.910	18.020	17.650	18.350	30,709	-1,963	28,746
Short USD/NOK	USD 5mn	27/06/2025	10.070	10.060	10.270	9.6000	4,965	104	5,070
Long EUR/GBP	USD 5mn	04/07/2025	0.8625	0.8674	0.8475	0.8850	27,978	-4,894	22,084
Long USD/JPY	USD 5mn	18/07/2025	148.30	147.70	145.70	153.30	-19,335	11,240	-8,095
Long NOK/CHF	USD 5mn	08/08/2025	7.8727	7.9760	7.7520	8.1151	65,607	12,022	77,629
Short USD/JPY	USD 5mn	15/08/2025	147.00	147.80	149.50	143.50	-27,211	-13,990	-41,201
Long NZD/SEK	USD 5mn	12/09/2025	5.5557	5.4449	5.4168	5.6945	-99,717	1,511	-98,206
Short USD/JPY	USD 5mn	07/11/2025	153.40	156.00	156.00	148.50	-84,746	-4,292	-89,038
Long EUR/GBP	USD 5mn	19/09/2025	0.8710	0.8730	0.8550	0.8900	11,481	-15,091	-3,610
Short CAD/CHF	USD 5mn	03/10/2025	0.5705	0.5765	0.5825	0.5525	-53,041	-16,310	-69,351
Long AUD/GBP	USD 5mn	12/12/2025	0.4980	0.5200	0.4980	0.5280	220,884	-1,297	219,587
Long EUR/JPY	USD 5mn	12/01/2026	184.50	181.50	181.50	190.00	-81,301	4,384	-76,917
Short EUR/USD	USD 5mn	09/03/2026	1.1570	1.1750	1.1750	1.1300	-105,877	5,936	-99,942
Long AUD/SEK	USD 5mn	11/05/2026	6.6850	6.6640	6.5700	6.8950	-15,609	7,665	-7,944
Short GBP/CHF	USD 5mn	30/03/2026	1.0600	1.0670	1.0800	1.0200	-32,994	-21,659	-54,603
Long USD/NOK	USD 5mn	19/06/2026	9.6900	9.8500	9.5000	10.100	82,559	-728	81,832
Long EUR/GBP	USD 5mn	17/07/2026	0.8500	0.8575	0.8395	0.8700	44,118	-3,053	41,065
Short USD/BRL	USD 5mn	10/07/2026	5.1150	5.1900	5.2600	4.9600	-73,314	61,095	-12,219
Long AUD/JPY	USD 5mn	07/08/2026	111.20	114.50	109.20	114.50	148,381	6,286	154,667
Short EUR/JPY	USD 5mn	04/09/2026	181.30	180.90	184.30	186.30	11,031	-1,818	9,214
New Trades									
Long USD/SEK	USD 5mn	18/09/2026	9.8500		9.6000	10.300			

Source: MUFG GMR; Changes in stops/targets in bold italics. (1) Current levels reflect intraday pricing. (2) The portfolio represents hypothetical, not actual, investments. Furthermore, we do not actively manage these hypothetical positions on a daily basis and changes tend to be made only through this publication on a weekly basis. To reflect the level of conviction of our trades we run trades in two different amounts: High conviction trades = USD 10mn & Basic conviction trades = USD 5mn

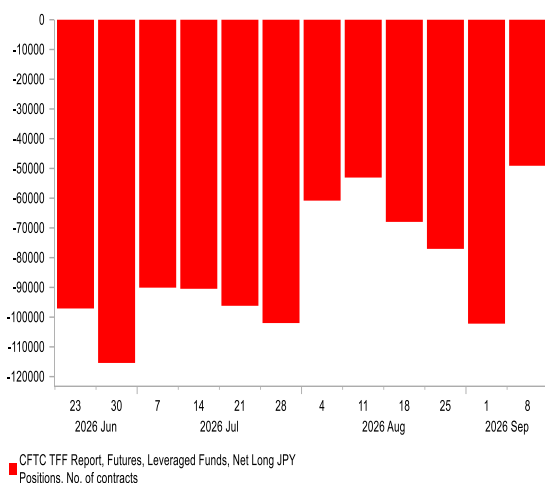
FX Positioning

The Commodity Futures Trading Commission (CFTC) publish weekly reports revealing positioning for the following currencies: AUD, BRL, CAD, CHF, EUR, GBP, JPY, MXN, NZD, RUB, USD (implied) and ZAR. We have applied z-scores to the positioning data to provide a signal of how stretched current positions are compared to averages over the last two years.

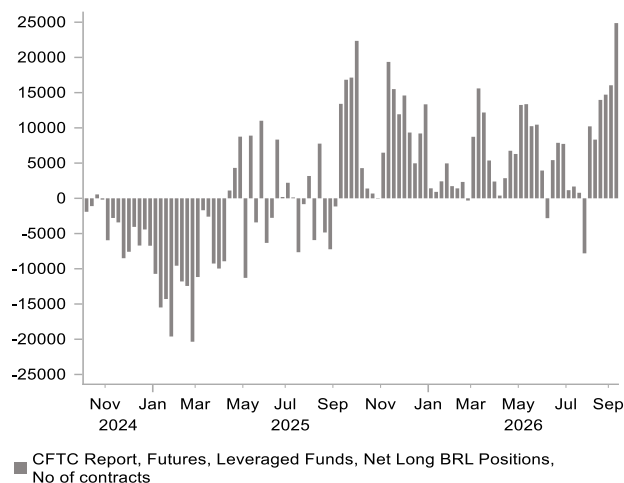
BREAKDOWN BY INVESTORS

Asset Manager/Institutional			Leveraged Funds			Asset Manager/ Institutional & Leveraged Funds		
	No. of contracts	Z-Score		No. of contracts	Z-Score		No. of contracts	Z-Score
AUD	-40,199	-0.42	AUD	49,779	1.26	AUD	9,580	0.50
BRL	51,695	0.23	BRL	24,871	2.44	BRL	76,566	0.84
CAD	-30,008	0.64	CAD	-55,448	0.17	CAD	-85,456	0.56
CHF	-35,677	0.13	CHF	-13,440	-1.32	CHF	-49,117	2.21
EUR	250,678	-0.54	EUR	-33,285	-1.19	EUR	217,393	-0.75
GBP	-105,864	-0.91	GBP	34,627	0.04	GBP	-71,237	-0.76
JPY	-570	-0.51	JPY	-49,098	-0.29	JPY	-49,668	-0.47
MXN	63,103	0.99	MXN	82,101	1.86	MXN	145,204	1.62
NZD	14,024	2.18	NZD	-17,350	-0.76	NZD	-3,326	1.44
USD	-187,415	0.02	USD	-23,111	-1.13	USD	-210,526	-0.35
ZAR	20,233	1.34	ZAR	354	-0.26	ZAR	20,587	0.88

JPY SHORT SQUEEZE



STRETCHED LONG BRL POSITIONS

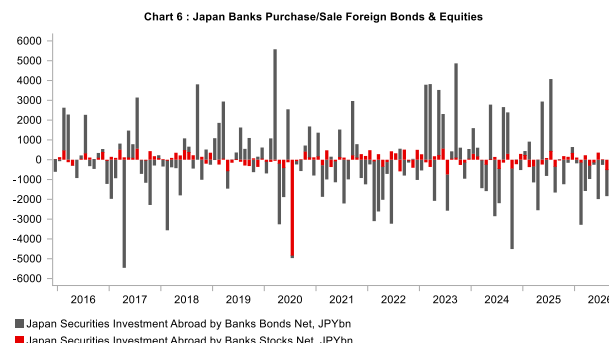
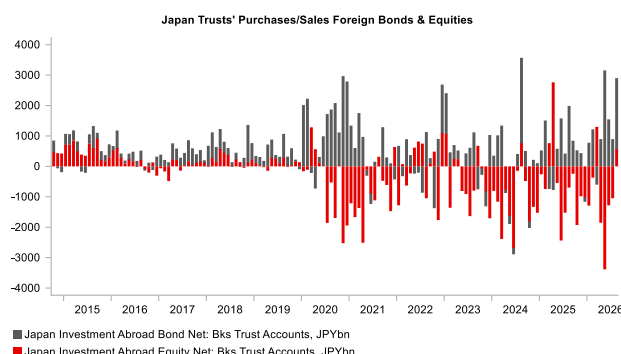
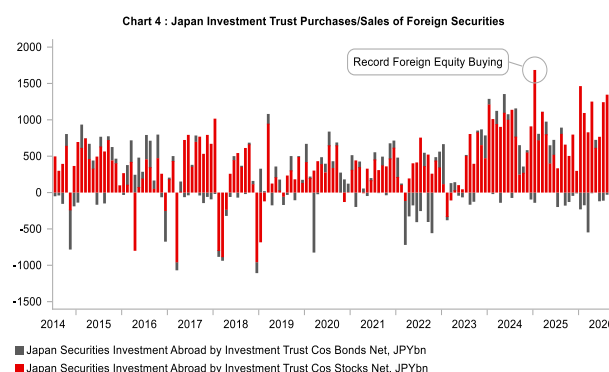
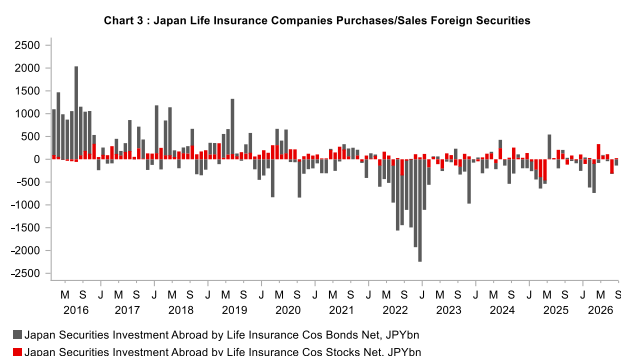
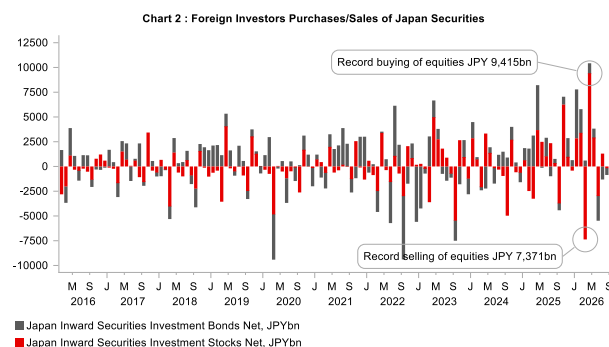
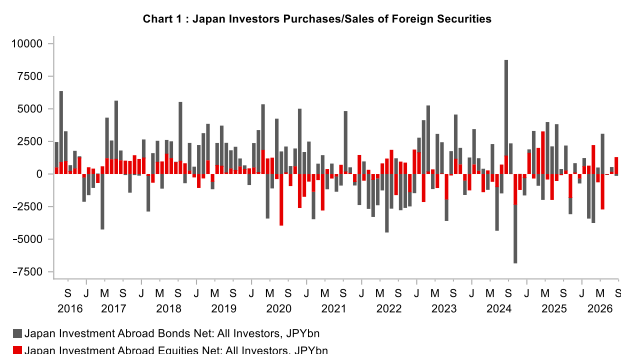


Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 8th September 2026)

Key Takeaways:

- The latest IMM positioning data for the week ending 8th September showed that leveraged funds shifted to a net short USD position for the first time since the end of May. The largest net short USD positions were held against the MXN, AUD, and GBP, underscoring the continued appeal of higher-yielding and commodity-linked currencies in the current market environment. At the same time, long USD positions held against the CAD, EUR and JPY have been scaled back recently.
- The largest weekly changes in leveraged fund positioning were: (i) a decrease in short JPY positions of 53,090 contracts; (ii) a decrease in short CAD positions of 13,302 contracts; (iii) a decrease in long GBP positions of 8,540 contracts; and iv) an increase in long BRL positions of 8,825 contracts. It was the largest weekly reduction in short JPY positions since March 2007 in the run up to the Global Financial Crisis. It indicates that recent JPY strength has been reinforced by a significant short squeeze.
- Our positioning z-score analysis indicates that long BRL and MXN positions were the most stretched relative to their respective ranges over the past two years.

JPY Flows – Portfolio & by investor type



Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- The Transactions in International Securities data for August was released last week and what stands out is the very small scale of net flows of foreign bonds by Japanese investors that have taken place over the last three months. In August there was JPY 143bn worth of foreign bond sales, which followed JPY 366bn of net purchases in July and net sales of JPY 18bn in June (Chart 1). Ignoring whether an inflow or outflows, it is one of the smallest 3-month period of net flows since the data series began in 2001. But an overall moderate net foreign bond figure of course may still be just a mask for bigger sector-by-sector flows – see below. Japanese investors were more active on the foreign equity side with JPY 1,298bn worth of purchases, the largest since March. Foreign investor net flows were modest on the equity side with JPY 174bn worth of sales but sold a larger JPY 684bn worth of Japan bonds, the third consecutive month of bond selling totalling JPY 4,490bn.
- Lifer flows in Chart 3 were as usual quite modest although the JPY 137bn worth of foreign bond selling was the largest since March. Chart 4 once again highlights the impact of the government decision to expand NISAs with substantial outflows to foreign equity market continuing and hence is playing a role in keeping the yen weaker. Investment Trust foreign equity purchases totalled JPY 1,346bn in August, the largest total since January, which tends to be the biggest month per year. On a year-to-date basis, foreign equity buying totalled JPY 8,606bn, the largest since the NISA expansion went live at the start of 2024. Foreign equity purchases by Investment Trusts since the NISA expansion has totalled JPY 27.3trn (\$176bn). That's close to a 3-fold increase from the same period prior (2021 to Aug 2023).
- Chart 5 shows Japan Trust flows and in August the previous evidence of asset switching was not on show with buying of both foreign bonds and equities. Foreign bond buying was large at JPY 2,333bn while foreign equity purchases totalled JPY 567bn, the first buying since March. In the five months since April when the new fiscal year began, foreign bond buying totalled JPY 8,826bn, a record. GPIF is not repatriating!

US Rates Repricing: Are equities approaching a vulnerability threshold?

The sharp rise in Treasury yields since the outbreak of the US-Iran conflict has renewed concerns over whether higher rates may eventually become a meaningful headwind for risk assets. Both the US 2-year and US 10-year Treasury yields have returned towards cycle highs, with the 10-year briefly moving above 5% this week, a key psychological threshold.

Market narrative typically focuses on whether a particular yield level acts as a trigger for equity weakness. However, our analysis suggests that investors should focus less on the level of yields and more on the scale of the repricing. Across nearly four decades of data, we find that the magnitude of yield shocks and the prevailing inflation regime have historically been much more important determinants of equity performance than the absolute level of yields themselves.

METHODOLOGY

To assess when rising yields become a meaningful risk for equities, we construct a historical event-study framework using daily observations on the **US 2-year Treasury yield, US 10-year Treasury yield, S&P 500 Index and US CPI inflation**, spanning 1990 to the present. Our key explanatory variable is the cumulative change in Treasury yields over the preceding 60-business-day window:

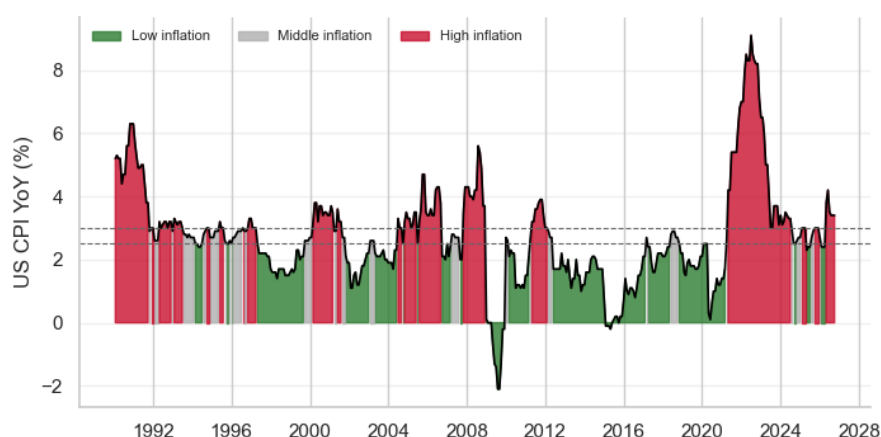
$$\Delta Y_{t,60} = Y_t - Y_{t-60}$$

where Y_t denotes the Treasury yield at time t . These yield changes are subsequently grouped into predefined shock buckets ranging from yield declines ($\leq 0bp$) to extreme repricings ($> 150bp$). For each observation, we calculate subsequent S&P 500 performance over 1-, 3- and 6-month horizons:

$$R_{t+h} = \frac{SPX_{t+h} - SPX_t}{SPX_t}$$

alongside the maximum drawdown experienced over the same forward-looking window. The sample is then partitioned into **low-, middle- and high-inflation regimes** based on prevailing CPI conditions to determine whether the macroeconomic environment influences the relationship between Treasury yield shocks and subsequent equity returns. This framework allows us to distinguish whether equity vulnerability is driven by the absolute level of yields or by the magnitude of the repricing itself.

US INFLATION REGIMES SINCE 1990 – PRESENT



Source: Bloomberg and MUFG GMR

Inflation regimes are defined using year-on-year US CPI inflation. Periods are classified as low (less than 2.5%), middle (between 2.5% and 3%), or high inflation (greater than 3%).

KEY FINDINGS

Finding #1: The US 2Y contains a stronger signal than the US 10Y

The relationship between Treasury shocks and future equity returns is considerably stronger for the front-end of the curve. Large moves in the US 2-year yield are more directly linked to; Fed policy repricing, financial conditions tightening and Inflation persistence concerns. By contrast, large moves in the US 10-year yield often reflect a mixture of; Growth expectations and Inflation expectations. This appears to dilute its explanatory power for future equity performance.

Our results suggest that market participants should focus primarily on the US 2-year Treasury yield rather than the US 10-year when assessing equity vulnerability.

Finding #2: Yield shock size matters more than yield level

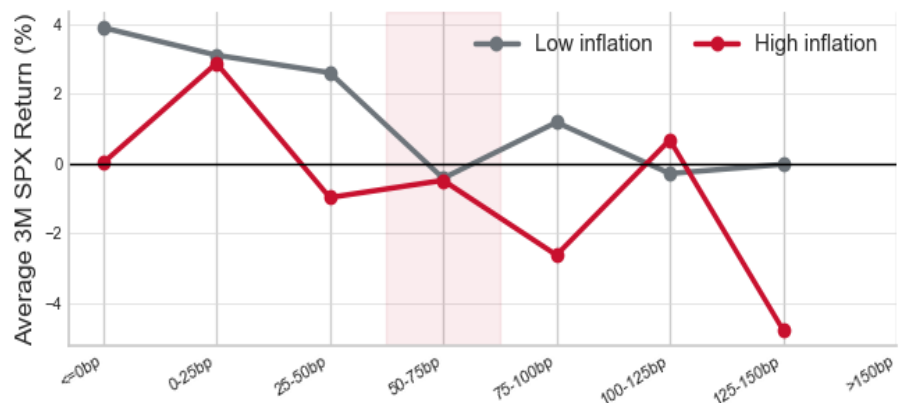
Over the period analysed (1990 – present) as the magnitude of the repricing increases subsequent equity returns deteriorate. The transition is gradual rather than sudden. This suggests equity markets are more sensitive to the speed of the rate shock than the level itself.

US2Y Shock	3M Forward SPX Return
≤ 0bp	+2.7%
0-25bp	+2.6%
25-50bp	+1.6%
50-75bp	+0.6%
75-100bp	-0.3%
125-150bp	-2.2%

Average subsequent 3-month S&P 500 return following US 2-year Treasury yield shocks of varying magnitudes.

Finding #3: Inflation is the critical conditioning variable

Inflation regime dramatically changes the impact of rising yields. When inflation is low; equities tolerate rising yields and large yield increases are often followed by positive returns. When inflation is high; Large yield shocks become much more problematic, negative outcomes become more frequent and drawdowns become materially larger. The divergence is particularly striking for large US 2Y shocks.



Source: Bloomberg and MUFG GMR

Chart shows that historically, rising US 2-year yields have only been consistently associated with weaker equity outcomes when inflation is elevated.

US2Y Shock (Inflation Regimes)	Avg 3M Return	Negative 3M Return Probability
≤0bp	0.0%	39%
25-50bp	-1.0%	49%
50-75bp	-0.5%	57%
75-100bp	-2.6%	68%
125-150bp	-4.8%	65%

Average subsequent 3-month S&P 500 returns following US 2-year Treasury yield shocks across inflation regimes. Negative hit rates measure the probability of an equity decline and rise materially once front-end repricing's exceed approximately 50bp.

Key Takeaways:

- Current market conditions place the US Treasury market within the early stages of the historical risk zone identified by our framework. The US 2-year Treasury yield has risen by approximately 50bp over the past 60 business days placing the front end of the curve in the 50-75bp shock bucket. Importantly, our inflation framework continues to classify the **current environment as a high-inflation regime**, where historical sensitivity to Treasury repricing has been materially greater than during low-inflation periods.
- Historically, these ranges have marked the point at which subsequent equity outcomes begin to deteriorate, particularly when inflation remains elevated. While the evidence does not suggest that a major equity correction is imminent, it does indicate that the probability distribution of future returns is becoming less favorable.
- For FX markets, should Treasury yields continue to reprice higher, triggering our >75bp in 60 days threshold, weighing more heavily on equity markets, the resulting deterioration in risk sentiment would likely support traditional safe-haven currencies such as JPY and CHF, while weighing on higher-beta and cyclical currencies.

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