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Bullish USD trend suffers setback

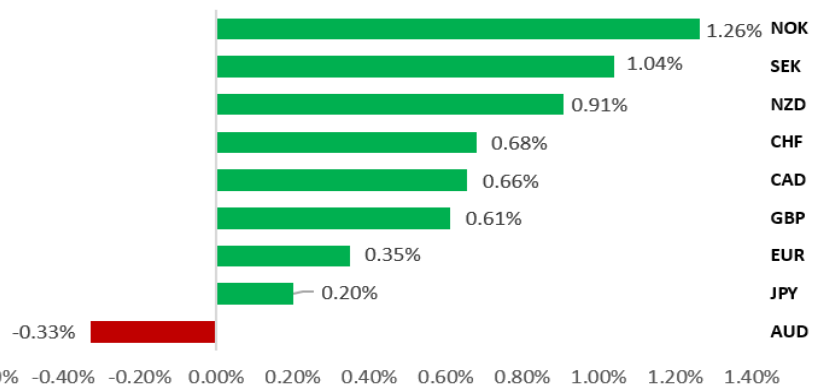
FX View: The USD is on course to weaken this week, bringing an end to four consecutive weeks of gains. After climbing to a fresh year-to-date high following the stronger-than-expected US CPI report for September, the USD quickly surrendered those gains, marking the beginning of the current pullback. The Fed is still widely expected to leave rates on hold this month after recent communication from officials, including Fed Chair Kevin Warsh, failed to signal any urgency to tighten policy again. The proximity of the US midterm elections may also discourage a back-to-back rate hike. If the Democrats take control of Congress, it could contribute at the margin to a further pullback in US yields and the USD. The USD's correction has also coincided with a moderation in investor optimism towards AI-related trades. Strong inflows into riskier US assets have helped to support the USD alongside higher US yields and the positive terms-of-trade shock from elevated energy prices. However, heavily overweight positioning leaves the USD vulnerable to a reversal when sentiment towards AI deteriorates.

Trade Ideas: We are maintaining our short EUR/JPY trade idea and closing our long USD/SEK trade idea after this week's reversal.

JPY Flows – Balance of Payments: The MoF Balance of Payments data for August was released last week and reveals the 3-month sum of the investment income balance remains at a lower level. This reflects a sharp drop-off in the investment income balance for equities.

IMM FX Positioning: The latest IMM positioning data for the week ending 6 October showed that leveraged funds reduced their short USD positions for a third consecutive week. On the other hand, there was a sharp increase in long BRL positions driven by the first round of Brazil's presidential election.

PARTIAL REVERSAL OF RECENT USD GAINS



Source: Bloomberg, as of 16th October 14:20 BST (Weekly % Change vs. USD)

USD: Reversals underway for the USD & AI trades

USD is correcting lower after failing to build on four consecutive weeks of gains

The USD has reversed course this week, with the dollar index currently on track to decline and snap a four-week winning streak. The main beneficiaries of the softer USD have been the Scandinavian currencies, particularly the NOK and SEK, alongside the NZD. The SEK and NZD were among the worst-performing currencies during the USD rally between 9 September and the recent peak in the dollar index on 14th October. In contrast, the AUD has underperformed the NZD, weakening against the USD this week and pushing AUD/USD back towards the 0.6900 level. The pullback in the USD has coincided with a continued decline in global government bond yields this month, following the sharp repricing higher in September. At the long end of the US yield curve, yields have fallen significantly, with the 10-year Treasury yield down by almost 30bps from the peak reached earlier this month.

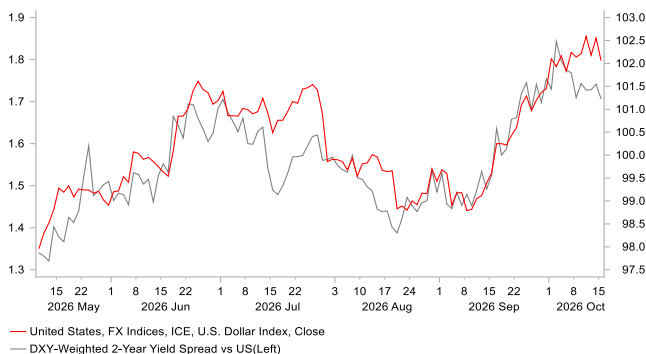
Stronger US inflation fails to reinforce USD strength & back-to-back Fed rate hike expectations

The USD's failure to extend its gains this week following the release of stronger US inflation data has been disappointing and has likely encouraged some investors to trim long positions accumulated over the past month. The September CPI and PPI reports will have reinforced concerns within the Fed about the risk of more persistent inflation. Looking beyond the inflationary impact of higher energy prices, a second consecutive month of firm core inflation (+0.34% M/M) increases pressure on the Fed to continue tightening policy. The pickup in core inflation was evident across both the goods (+0.25% M/M) and services (+0.37% M/M) sectors. Core goods inflation recorded its strongest monthly increase since January 2025, potentially signalling greater pass-through from higher transportation and energy costs. The price of personal computers and peripheral equipment also rose by a robust 1.4% M/M for a third consecutive month, supported by strengthening AI-related demand. However, its contribution to the monthly increase in core goods inflation remains relatively modest at around 0.01ppt. Taken together, the CPI and PPI reports have prompted economists to revise higher their forecasts for the core PCE deflator in September, with expectations now centred in the 0.3%-0.4% M/M range.

Fed is still expected to leave rates on hold until December although an October hike can't be completely ruled out

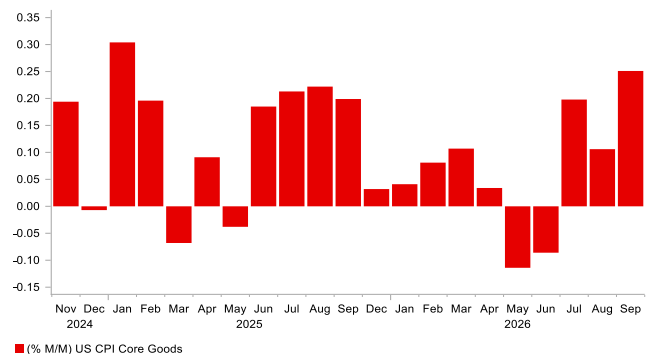
Despite the stronger US inflation data, which further highlights the limited progress towards the Fed's inflation objective, market participants have been reluctant to price in a more hawkish policy path. Market pricing for a back-to-back Fed rate hike later this month has fallen to around 4bps after Fed Chair Kevin Warsh refrained from signalling a clear need for another increase so soon after last month's initial hike. In addition, recent comments from other Fed officials, including New York Fed President Williams and Vice Chair Jefferson, have suggested that there is no urgent need to tighten policy again in the near term. This preference for a more gradual pace of policy tightening is helping to contain upside risks for both US yields and the USD in the near term.

YIELD SPREADS LESS SUPPORTIVE FOR USD UPSIDE



Source: Bloomberg, Macrobond & MUFG

PASSTHROUGH FROM HIGHER ENERGY PRICES



Source: Bloomberg, Macrobond & MUFG GMR

AI trades correct lower with focus on neocloud operators who have higher debt burdens and lower profitability

IMF flags concerns over growing leverage including increasing reliance on debt issuance by AI companies

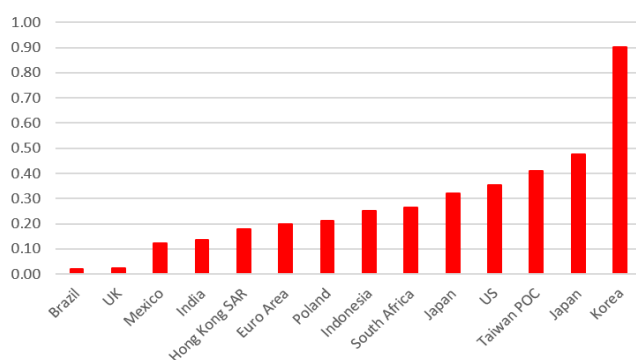
Heavy AI-related inflows into US equities & corporate bonds will USD vulnerable when AI investor sentiment sours

The USD's pullback this week has coincided with a wobble in AI-related trades. After reaching a fresh record high earlier this month, Bloomberg's AI equity index has since fallen by around 6%. The correction has been even more pronounced in semiconductor and neocloud equity indices. The sell-off has been driven by a combination of factors, including renewed concerns that the scale of AI investment could ultimately result in oversupply. At the same time, the growing need to raise capital to finance AI infrastructure is contributing to tighter financing conditions. Bonds issued to fund major data centres, where companies such as Meta, Nvidia and Oracle are expected to become tenants, have fallen below par in recent weeks. Neocloud firms such as CoreWeave, which have been among the most aggressive in financing their expansion, have experienced stronger selling pressure in their debt lifting yields above 15%.

The IMF identified an AI-driven market correction as one of the three key risks to financial stability in its latest Financial Stability Report. The report noted that AI-related firms and their investors are increasingly relying on three major sources of leverage. First, hyperscalers' share of global investment-grade bond issuance has risen to 10%, up from less than 1% in 2024. The IMF also singled out neocloud operators due to their higher debt burdens and weaker profitability. Second, hedge funds' gross equity exposure, combined with equity margin loans, has increased to around 15% of advanced economy GDP, up from 10%, reflecting a build-up of leveraged positions in AI-related equities. Third, the share of single-stock products within leveraged exchange-traded funds has increased from 16% to 28%, as retail investors have increasingly used these vehicles to gain leveraged exposure to AI stocks. These growing sources of leverage increase the risk of forced selling, heightened equity market volatility, and wider credit spreads if AI-related investment and profitability prove less durable than currently anticipated.

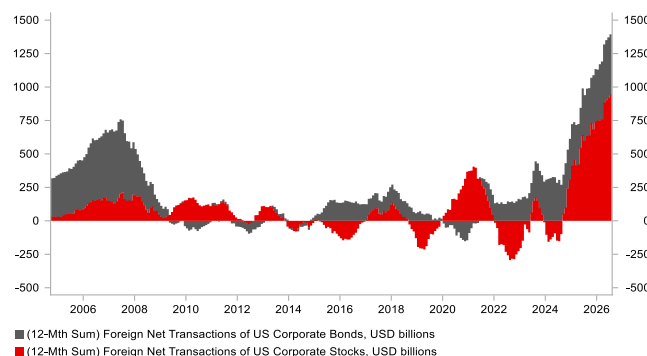
The IMF warned that the consequences of an AI-related market correction could be felt globally, although some jurisdictions appear more vulnerable than others. Its analysis showed that advanced Asian equity markets exhibit the highest betas to a proxy for global AI equity returns, indicating greater sensitivity to fluctuations in AI-related sentiment. In contrast, equity markets in the euro area, the UK and most emerging economies display significantly lower betas. US financial markets have been a major beneficiary of strong foreign investor demand driven by AI-related optimism. Foreign investors purchased USD942 billion of US equities in the twelve months to July, while purchases of US corporate bonds increased sharply to USD452 billion over the same period. These sizeable inflows highlight how the USD has become increasingly tied to investors' search for higher returns in US financial markets, rather than benefiting from its traditional safe-haven status. However, this dynamic also leaves the USD more exposed to a reversal if sentiment towards AI deteriorates.

EQUITY RETURN BETA TO THE GLOBAL AI INDEX



Source: IMF Global Financial Stability Report October 2026

HEAVY INFLOWS INTO RISKIER US ASSETS



Source: Bloomberg, Macrobond & MUFG GMR

USD: Will US politics impact the US dollar?

Focus will now shift to politics

The US dollar remains well supported close to recent highs as US yields stabilise a little lower than recent highs as the AI-related selling weighs on investor risk appetite. An FT poll this week indicated President Trump's popularity remains at around record lows with the cost of living the primary cause for the poor readings. Race to the White House polling currently predicts the Democrats winning not just the House but the Senate as well. It estimates the Democrats have a 71.6% chance of winning the Senate which would confirm a clean sweep and limiting any Trump attempt to increase spending further. Will the mid-term elections have any implications for the US dollar?

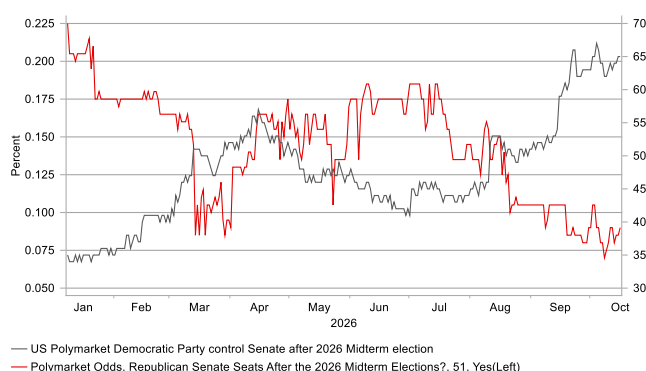
Politics through the prism of yields and AI

There are three most likely scenarios – 1) the Democrats win the House, but the Republicans hold the Senate; 2) the Democrats win both the House and the Senate; 3) or the Republicans keep hold of both the House and the Senate. The market consensus has been scenario 1) although the continued momentum in the polls suggest that consensus is shifting to Scenario 2). Looking at these scenarios through the potential reaction in the UST bond market, having the Democrats in control of one or both houses of Congress would likely be marginally supportive of lower yields. A result that takes away the ability of President Trump to increase government spending further would help weigh on yields. The IMF budget deficit projections show the US fiscal deficit remaining around the 7% level throughout the forecast period. Policy gridlock means fiscal gridlock – that's not a particularly good backdrop for the fiscal outlook but its better than it might have been if the Republicans won. The Democrats would also be more sympathetic to pushing for greater regulations of AI. Pushing back against data centre buildouts could see the AI investment spending momentum slow and with valuations stretched that could form part of the catalyst for a bigger correction lower. That would be US dollar negative, certainly versus core G10 with higher beta G10 more likely to suffer as well. Scenario 2) would also likely see a big increase in investigations into the Trump White House that could fuel greater conflict in Washington and lead to more unpredictable policy announcements. This development would also be dollar negative as US dollar hedge-selling appetite increased.

Fed & geopolitics will still dominate

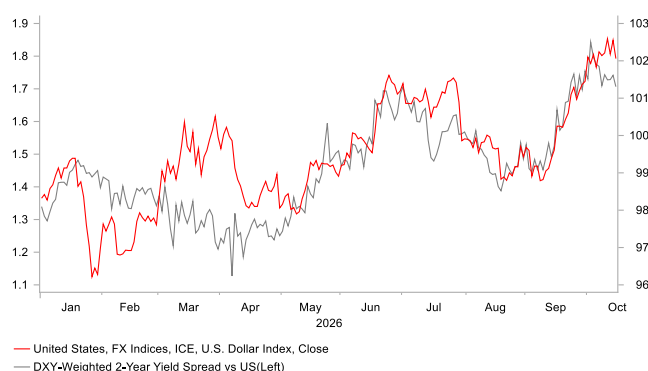
Scenario 3) is the least expected and hence would likely result in the biggest move with the US dollar likely to strengthen as yields move higher on expected further deficit spending and continued AI freedom. But the FX moves will likely be contained with no clear strong impact on policy. Scenario 2) could see US dollar selling but of no more than 1% or so. Scenario 3) could see a bigger US dollar gain than that but ultimately the inflation data in November, Fed rate expectations and geopolitical developments and energy prices will continue to be more important FX drivers.

ODDS OF A REPUBLICAN VS DEM MAJORITY - SENATE



Source: Polymarket; Macrobond; MUFG GMR

FED MATTERS MORE FOR THE DOLLAR



Source: Macrobond; Bloomberg & MUFG GMR

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
CNY	19/10/2026	03:00	GDP YoY	3Q	4.4%	4.3%	!!!
EUR	19/10/2026	03:15	ECB's Lane Speaks				!!
CAD	19/10/2026	13:30	CPI YoY	Sep	--	3.0%	!!!
USD	19/10/2026	15:00	NAHB Housing Market Index	Oct	31.0	32.0	!!
CAD	19/10/2026	16:30	BoC Overall Business Outlook Survey	3Q	--	- 0.4	!!
GBP	20/10/2026	07:00	Average Weekly Earnings 3M/YoY	Aug	--	3.9%	!!!
GBP	20/10/2026	07:00	Payrolled Employees Monthly Change	Sep	--	-26k	!!!
EUR	20/10/2026	09:00	ECB Current Account SA	Aug	--	27.6b	!!
EUR	20/10/2026	10:00	Germany ZEW Survey Expectations	Oct	--	34.7	!!
EUR	20/10/2026	10:00	Construction Output MoM	Aug	--	0.0%	!!
USD	20/10/2026	13:30	Housing Starts	Sep	1300k	1275k	!!
JPY	21/10/2026	00:50	Trade Balance	Sep	-¥179.1b	-¥1111.9b	!!
GBP	21/10/2026	07:00	CPI YoY	Sep	--	3.1%	!!!
GBP	21/10/2026	07:00	Public Sector Net Borrowing	Sep	--	18.3b	!!
GBP	21/10/2026	07:00	PPI Output NSA YoY	Sep	--	3.7%	!!
GBP	21/10/2026	14:00	BoE's Bailey Speaks				!!!
EUR	21/10/2026	17:00	ECB's Lagarde Speaks				!!!
NZD	21/10/2026	22:45	CPI YoY	3Q	--	4.1%	!!!
JPY	22/10/2026	07:00	Machine Tool Orders YoY	Sep F	--	60.4%	!!
CHF	22/10/2026	08:30	SNB Summary of Sept Rate Decision				!!
USD	22/10/2026	13:30	Initial Jobless Claims		--	--	!!
EUR	22/10/2026	15:00	Consumer Confidence	Oct P	--	- 16.5	!!
JPY	23/10/2026	00:30	Natl CPI YoY	Sep	2.1%	1.9%	!!!
GBP	23/10/2026	07:00	Retail Sales Inc Auto Fuel MoM	Sep	--	0.5%	!!
EUR	23/10/2026	09:00	S&P Global Eurozone Manufacturing PMI	Oct P	--	52.9	!!
EUR	23/10/2026	09:00	S&P Global Eurozone Services PMI	Oct P	--	53.0	!!
GBP	23/10/2026	09:30	S&P Global UK Services PMI	Oct P	--	52.1	!!
GBP	23/10/2026	09:30	S&P Global UK Manufacturing PMI	Oct P	--	51.9	!!
CAD	23/10/2026	13:30	Retail Sales MoM	Aug	--	-0.7%	!!
USD	23/10/2026	14:45	S&P Global US Composite PMI	Oct P	--	58.4	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- The main economic data releases in the week ahead will come from the UK, including the latest CPI and labour market reports. Market participants will be looking for confirmation that the BoE remains on course to begin raising rates next month. Headline inflation in the UK has generally undershot expectations since the US-Iran conflict began, allowing the BoE to take its time in assessing whether higher rates are warranted in response to the energy price shock. However, recent comments from BoE officials, including Governor Bailey, suggest that the window for keeping rates on hold is narrowing. Another reason the BoE has been reluctant to tighten policy is the persistent weakness in the labour market, which has helped to ease concerns about second-round inflation effects, such as stronger wage growth. Labour market conditions have remained soft despite the UK's robust economic growth this year. Evidence of an improvement in labour market conditions would add to pressure on the BoE to begin raising rates. Governor Bailey is scheduled to speak on Wednesday afternoon, following the release of both key economic reports, making his remarks particularly important for assessing the near-term policy outlook.
- The release of the latest CPI reports from Canada, New Zealand and Japan will also be in focus in the week ahead. The BoC has recently signalled that upside risks to inflation have increased, fuelling expectations that policy will need to be tightened before the end of this year. However, the case for a rate hike as soon as this month has weakened following a second consecutive soft employment report for September. In Japan, we do not expect the September CPI report to materially alter market expectations that the BoJ will leave rates on hold at this month's policy meeting. By contrast, the CPI release in New Zealand could have a more significant market impact, given that another RBNZ rate hike this month is viewed as a much more finely balanced decision after back-to-back increases in July and September. At its September policy meeting, the RBNZ indicated that it wanted time to assess the impact of those earlier rate hikes. Since then, RBNZ Chief Economist Paul Conway has welcomed market pricing that aligns with his view that the upcoming policy decision remains "wide open", reinforcing uncertainty over whether rates will be raised again this month.

Open Trade Ideas

SHORT EUR/JPY – OPENED @ 177.00 (TARGET @ 171.00 & STOP-LOSS @ 181.00)

Heightened fiscal & political risks in euro area to remain weight on EUR/JPY

We are maintaining a short EUR/JPY trade recommendation. The EUR has staged a modest rebound this week following the heavy sell-off over the past month. However, we are not convinced that the recovery is built on solid foundations. Government bond yields remain elevated across the euro area, particularly in countries such as France. The ECB has acknowledged that higher government bond yields have tightened financial conditions, which could allow policy rates to remain lower than they otherwise would. At the same time, we do not see a clear near-term catalyst that could materially improve investor sentiment towards French government bonds. In contrast, the JPY continues to draw support from the heightened risk of further FX intervention by the Japanese authorities and the BoJ's intention to deliver further policy tightening. The JPY could also benefit from renewed safe-haven demand if AI-related investor optimism continues to fade.

Closed Trade Ideas

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

Cutting position after reversals for USD & SEK

We have decided to close our long USD/SEK trade idea following the price reversal over the past week. The USD has lost near-term upward momentum after failing to extend its gains in response to the stronger-than-expected US inflation data for September. Market expectations that the Fed will leave rates on hold later this month, combined with the upcoming US midterm elections, could limit further upside for US yields and the USD, especially if the Democrats regain control of Congress. Recent comments from Fed officials, including Chair Warsh and New York Fed President Williams, have not indicated any urgency to deliver a back-to-back rate hike this month. In addition, the USD remains vulnerable to a more pronounced correction if investor sentiment towards AI continues to deteriorate. Conversely, the SEK has scope to rebound further following its sharp sell-off last month.

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
Short USD/SEK	USD 5mn	18/09/2026	9.8500	9.9100	9.6000	10.300	26,668	6,301	32,969
Open Trades									
Short EUR/JPY	USD 5mn	02/10/2026	177.00	177.60	181.00	171.00	-16,949	-1,941	-18,890

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

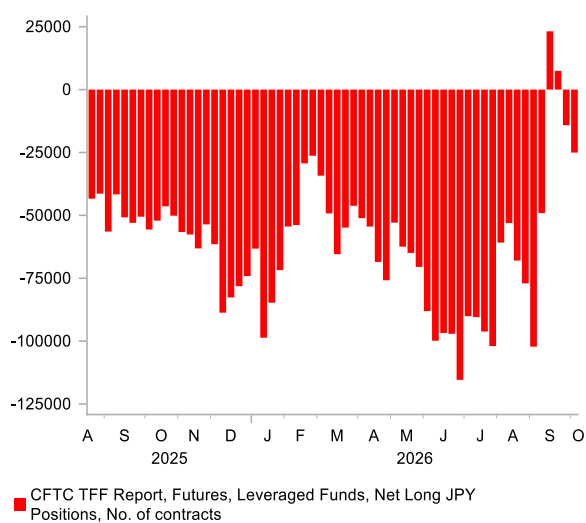
FX Positioning

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.

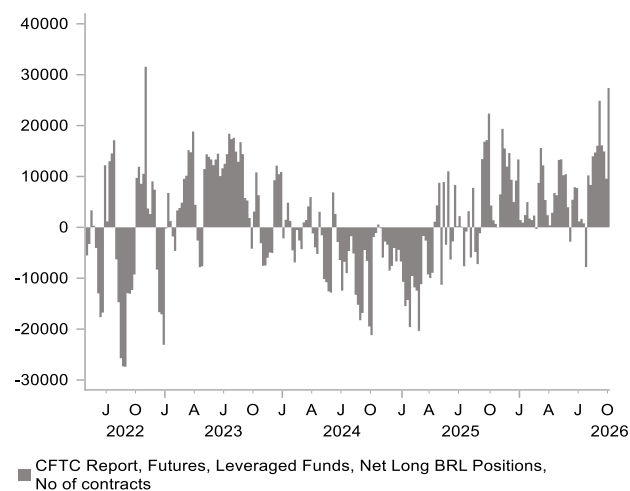
BREAKDOWN BY INVESTORS

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	-101,428	-2.26	AUD	54,133	1.29	AUD	-47,295	-0.52
BRL	56,610	0.32	BRL	27,396	2.59	BRL	84,006	1.00
CAD	-35,806	0.50	CAD	-79,625	-0.99	CAD	-115,431	0.14
CHF	-37,379	0.01	CHF	-11,350	-0.87	CHF	-48,729	1.65
EUR	189,881	-1.27	EUR	-44,261	-1.46	EUR	145,620	-1.37
GBP	-145,442	-1.76	GBP	12,432	-1.54	GBP	-133,010	-1.89
JPY	67,795	0.68	JPY	-25,043	0.35	JPY	42,752	0.60
MXN	-20,599	-2.36	MXN	74,927	1.45	MXN	54,328	-0.28
NZD	-32,534	-0.20	NZD	-787	0.91	NZD	-33,321	0.23
USD	41,018	-0.39	USD	-12,231	-1.92	USD	28,787	-0.88
ZAR	17,884	1.18	ZAR	4,409	0.34	ZAR	22,293	1.21

CAUTIOUSLY REBUILDING JPY SHORTS



BIG JUMP IN BRL LONGS

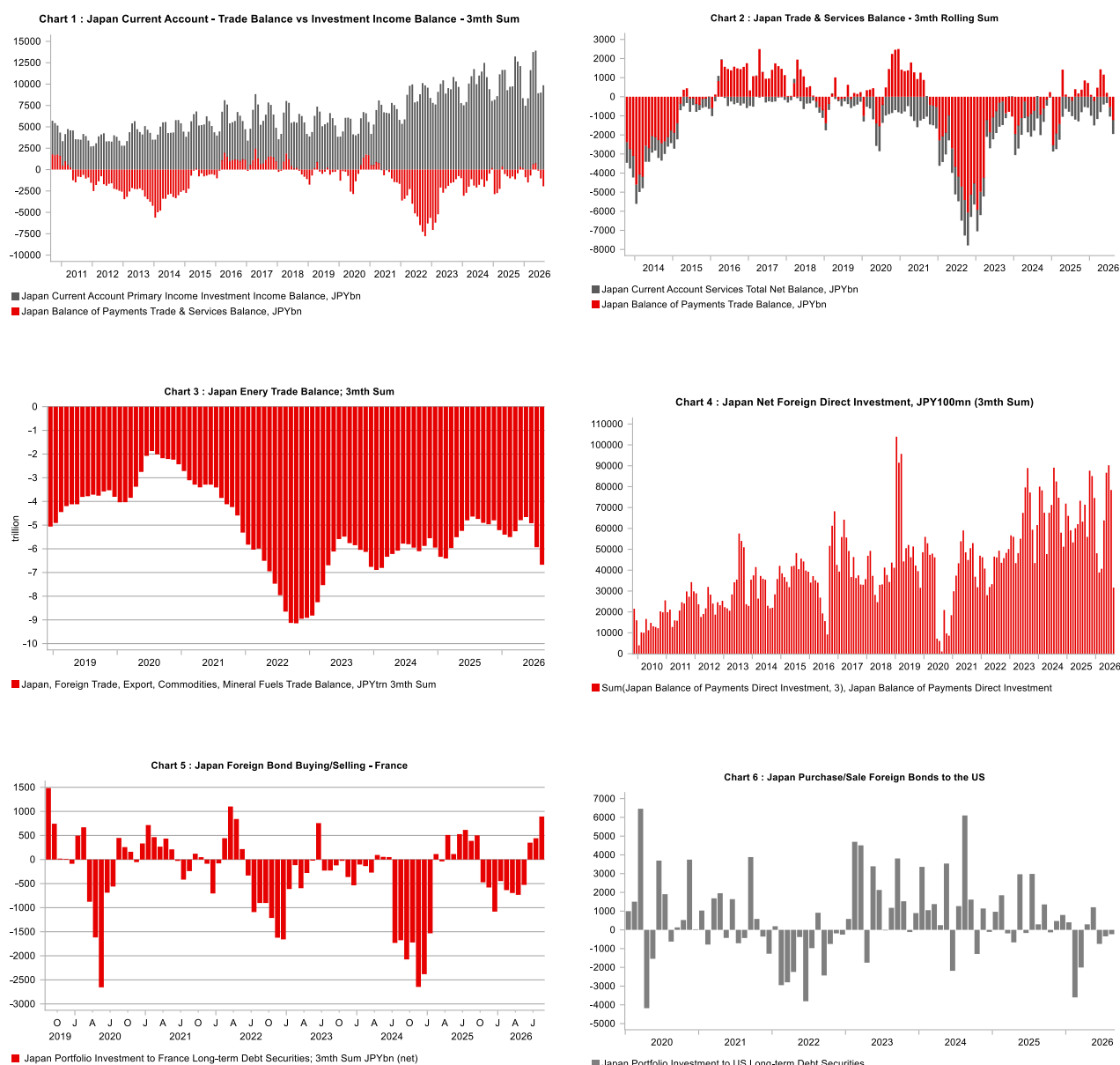


Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 6th October 2026)

Key Takeaways:

- The latest IMM positioning data for the week ending 6 October showed that leveraged funds reduced their short USD positions for a third consecutive week. The largest short USD positions were held against the AUD, BRL and MXN, largely offset by long USD positions against the CAD, EUR and JPY. Overall, the data point to mixed positioning among leveraged funds.
- The largest weekly changes in leveraged fund positioning were: (i) an increase in long BRL positions of 17,843 contracts; (ii) an increase in short CAD positions of 9,981 contracts; (iii) an increase in long GBP positions of 7,826 contracts; and (iv) an increase in short JPY positions of 10,882 contracts. The sharp increase in long BRL positions was driven by the first round of Brazil's presidential election. As a result, long BRL positioning rose to its highest level since November 2022, following the previous presidential election.
- Our positioning z-score analysis indicates that long BRL positions were the most stretched relative to their respective two-year ranges.

JPY Flows – Balance of Payments



Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- The MoF Balance of Payments data for August was released last week and Chart 1 reveals the 3mth sum of the investment income balance – the primary driver of Japan's current account balance – remains at a lower level. This reflects a sharp drop-off in the investment income balance for equities. This is a net figure and the June negative reflects the fact that Japanese companies pay foreign investor dividends to a larger extent in June and December. The monthly investment income balances in July and August have already recovered and next month the 3mth sum for the current account will likely return back higher toward the recent highs. Japan's external balances remain very strong. Chart 2 is a breakdown of the trade in goods and services from Chart 1. The goods and services balances have been in deficit over the last three months.
- Chart 3 is from the separate trade data and it highlights that part of the worsening of Japan's trade balance in Charts 1 and 2 is due to the worsening energy trade deficit. The 3mth sum has worsened notably and confirms that Japan has returned to the foreign markets for its energy needs after initially curtailing foreign purchases and running down domestic reserves. Chart 4 shows a sharp slowdown in the 3mth cumulative FDI outflow from Japan. This reflects an unusual net divestment from abroad with the August figure at JPY -1,016bn which reflected a large divestment from the US. These happen from time to time. There was no widely reported transaction to explain that so the likelihood is this is a one-off and we will see the net FDI outflow resume again.
- Chart 5 focuses on France for obvious reasons. It's widely known that France has been a favoured destination for Japanese investors over the years. In fact that was true years ago, pre-covid. As can be seen, since 2020, Japanese investors have generally been net sellers of France bonds. However, recently, that turned and the 3mth sum buying of France bonds in August reached JPY 894bn, the largest since March 2022. September was the month of renewed sharp selling that very likely included Japanese investors unwinding this recent buying.

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