The dollar consolidates, the yen remains vulnerable

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Weekly Note

Research Department

Rates, FX & Commodities Research

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- Next week could see a return to the dominant theme that emerged over the summer: a structurally weaker dollar and a gradual strengthening of the yen. The 'weak USD/strong JPY' theme remains supported by a combination of growing concerns over the US fiscal trajectory and expectations of further monetary normalisation in Japan.
- The euro and the pound remain supported by monetary differentials, whilst the Japanese currency continues to benefit from expectations of normalisation by the BoJ.

USD - Over the past week, the foreign exchange market has been characterised by a period of consolidation for the dollar following the sharp weakening seen in previous weeks. The Dollar Index (DXY) has recovered some ground thanks to more robust US data and still-high Treasury yields, but investors remain cautious as they await further guidance on the direction of the Fed's monetary policy and Chairman Warsh's speech this afternoon at Jackson Hole.

The picture remains consistent with a gradual structural weakness in the dollar over the medium term, fuelled by increased buybacks of long-term US debt and discussions regarding coordination between the Treasury and the Fed to keep yields in check. In the short term, however, the still-high level of US interest rates and uncertainty over the Fed's future monetary policy may provide episodic support for the greenback.

EUR - **The euro has held up well, remaining in the 1.16–1.17 range against the dollar despite the greenback's recent rebound**. The single currency continues to benefit from the perception that the ECB is nearing the end of its cycle of monetary easing, whilst doubts persist regarding the long-term sustainability of US fiscal and financing policy following the expansion of the US Treasury's buyback programme.

GBP – The pound remains one of the strongest G10 currencies. UK macroeconomic data has continued to surprise on the upside, and persistently high inflation keeps open the possibility of the Bank of England adopting a more restrictive stance than other central banks. **The GBP/USD exchange rate remains close to recent multi-month highs in the 1.36 range, whilst being affected by the dollar's recent recovery.**

JPY – The yen has continued to outperform compared with the extremely weak levels seen in July. **The market continues to price in a higher probability of further rate rises by the Bank of Japan**, whilst the risk of fresh intervention by the Japanese authorities remains high should USD/JPY move steadily back above the 160 level. However, the recent rise in US yields has temporarily limited the Japanese currency's appreciation.

The dollar's recent recovery appears more like a technical consolidation phase than the start of a new uptrend, whilst the yen and, to a lesser extent, the euro remain the main currencies to watch for appreciation in the medium term.

In this context:
· **EUR/USD** maintains a moderately bullish bias towards 1.18 in the medium term.
· **GBP/USD** continues to benefit from the UK's favourable interest rate differential.
· **JPY** remains the currency with the best potential for structural appreciation amongst the major currencies should the Bank of Japan's monetary policy normalisation continue and yield differentials with the US narrow.

CHF - **In recent weeks, the Swiss franc (CHF) has reaffirmed its role as a safe-haven currency, benefiting from rising geopolitical tensions in the Middle East**, trade uncertainties linked to US tariffs and doubts over the sustainability of US fiscal policy. However, the CHF's behaviour has differed from that of the yen, as the Swiss franc benefits primarily from risk-off flows but is constrained by the Swiss National Bank's relatively accommodative monetary policy and interest rates that are lower than those in the US. **The EUR/CHF traded within a narrow range around 0.93–0.94, showing substantial stability.** The euro, in fact, also benefited from the dollar's weakness, limiting the franc's appreciation against the single currency.

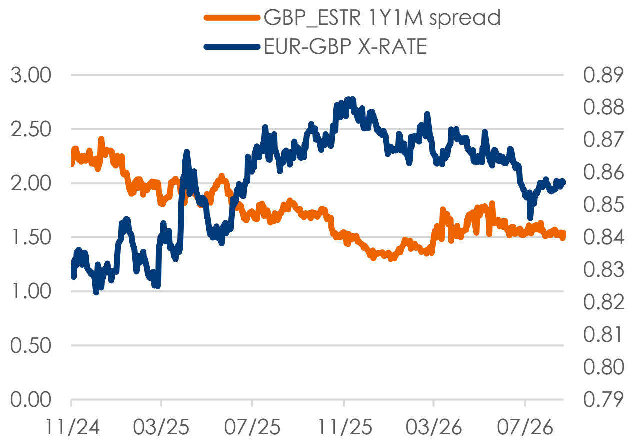
CAD – The Canadian dollar is heading into the Bank of Canada (BoC) meeting against a particularly complex backdrop, characterised by moderate economic growth, inflation that remains relatively resilient and renewed trade tensions with the United States. The recent tariff measures announced by Washington have increased uncertainty regarding the outlook for the Canadian economy, making the BoC's statement particularly significant for the markets.
The central scenario is that of a cautious BoC, intent on maintaining flexibility in the face of a less favourable external economic environment. The market will be looking above all for guidance on the balance between slowing growth and inflationary risks stemming from trade tensions and rising energy commodity prices.
The Bank of Canada meeting is the main catalyst for the CAD next week. **Against a backdrop of growing trade uncertainty with the United States, the central bank may adopt a cautious approach. We believe high volatility in the USD/CAD exchange rate is likely, with short-term risks tilted towards a moderate weakening of the Canadian dollar**, unless the BoC provides more constructive guidance on the domestic growth outlook.

Market movers for next week

Next week, the main geopolitical risk for the markets remains the Middle East. Any escalation between the United States and Iran could boost oil, the yen and safe-haven currencies, whilst weighing on assets more sensitive to growth. Taking a back seat, but still significant, are the US-Canada trade dispute, developments in the conflict in Ukraine and the risk of Japanese intervention in the foreign exchange market should USD/JPY return to around 160.

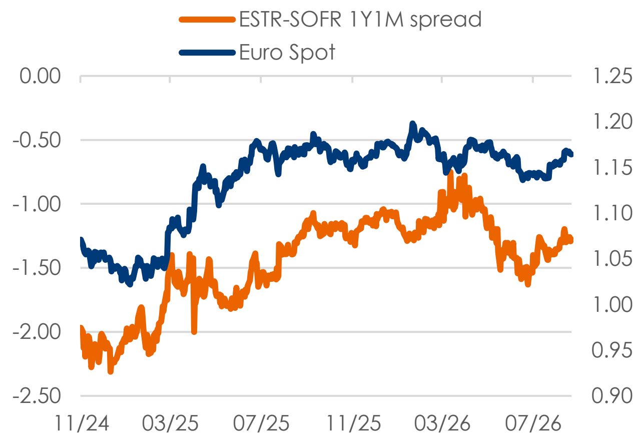
The BoC meeting, scheduled for 2 September, will be the week's main market mover for the Canadian dollar, against a backdrop of moderate growth and rising trade tensions with the United States. A cautious message from the central bank could keep pressure on the CAD,

GBP-EUR and 1Y1M rate spread



Source: Bloomberg, Intesa Sanpaolo

EUR USD and 1Y1M rate spread



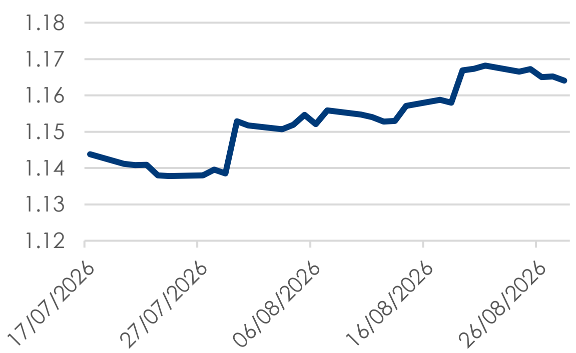
Source: Bloomberg, Intesa Sanpaolo

Forecasts Forex G10

	Spot	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028	Q2 2028
EUR/USD	**1.1646**	1.175	1.168	1.168	1.163	1.170	1.172	1.175	1.178
USD/JPY	**159.65**	159.55	159.26	158.70	157.13	155.54	153.93	152.32	150.81
GBP/USD	**1.359**	1.3619	1.362	1.378	1.388	1.385	1.392	1.395	1.391
USD/CAD	**1.385**	1.418	1.413	1.408	1.403	1.396	1.386	1.377	1.371
AUD/USD	**0.720**	0.715	0.718	0.723	0.726	0.728	0.729	0.731	0.732
NZD/USD	**0.595**	0.6	0.599	0.619	0.635	0.647	0.655	0.663	0.67
USD/CHF	**0.803**	0.807	0.805	0.803	0.8	0.797	0.794	0.79	0.787
EUR/SEK	**11.085**	10.784	10.91	10.746	10.571	10.406	10.26	10.156	10.091
EUR/NOK	**10.845**	11.255	11.125	10.988	10.875	10.79	10.72	10.651	10.581

Source: Bloomberg, Intesa Sanpaolo

EUR-USD spot



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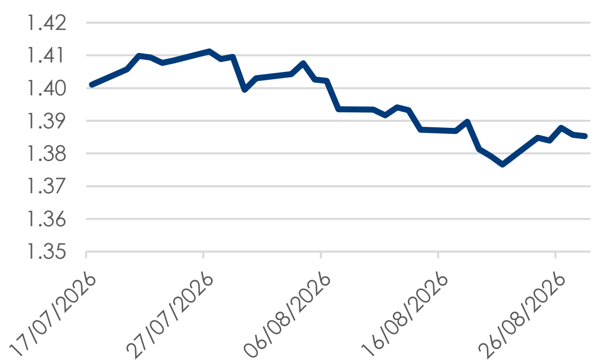
CAD-USD spot



Source: Bloomberg, Intesa Sanpaolo

Appendix

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