

FX Daily: BRICS quietly leaving the Treasury market

This week's central bank meetings have not been explosive for FX markets, but have provided some support to sterling and weighed on the yen. We note in the overnight release of US Treasury TIC data for October that the BRICS nations' holdings of US Treasuries continue to edge lower. For today, the focus will be on how far USD/JPY has to rise



➔ USD: Short term resilience

The dollar is proving surprisingly resilient despite the release of a [very soft US November CPI reading yesterday](#). It may be that the numbers seem too good to be true, which prevented a bigger reaction in FX and interest rate markets. In fact, two-year US Treasury yields ended yesterday's session unchanged on the day. However, the data leaves the idea of Fed cuts in 2026 intact, with the market now anticipating one 25bp cut by April and another by September. For today's US session, there's little meaningful data apart from housing starts and home sales, plus the final read of consumer confidence and inflation expectations for December. We doubt these will move markets.

Overnight, the US Treasury TIC data for October was released. This is a volatile series and the net purchases of US long-term securities – at \$17.5bn – were the lowest since the net \$24bn outflow in

April. These figures do bounce around a lot, so it is far too early to conclude there are any strong signs of a rotation away from US asset markets. However, one enduring trend is the continuing fall of Treasury holdings amongst the BRICS nations. In October, these were China (-\$11.8bn), India (-\$12bn) and Brazil (-\$5bn).

Across the foreign official sector, foreign official holdings of Treasury Bonds and Notes were off \$22bn, though partially offset by a \$14bn increase in T-bill holdings. We think the decline in India's holdings probably relates to FX intervention to support the rupee, but suspect there are also geopolitical factors at play too. However, this year has shown that the private sector is more than willing to buy Treasuries and our call for a weaker dollar in 2026 is based on foreign investors increasing their hedge ratios on US assets rather than selling them outright.

Yen weakness today is making DXY look bid. Here, USD/JPY may stay bid after the Bank of Japan Governor said the BoJ needed to see the impact of the rate hike before moving again. That could mean another six to 12 months! Short-term resistance for DXY is at 98.75/80.

Chris Turner

➔ EUR: EU leaders deliver

Late last night, EU leaders managed to secure a EUR90bn loan for Ukraine. The money would be funded from the joint EU budget (excluding Hungary, Slovakia and the Czech Republic) and would not involve frozen Russian assets. That is probably the best outcome for the euro in that it does not raise challenges over property rights nor require some imaginative use of emergency legislation. Presumably, it should also add another EUR90bn to the EU's pool of safe fixed income assets – and should find willing buyers.

EUR/USD is drifting towards the lower end of recent ranges. Yesterday's ECB meeting was not a [market mover after all](#), and the new set of forecasts probably leaves room now for market rates to be priced both higher and lower from here. Look out for the eurozone December consumer confidence data later in the day. Let's see if EUR/USD support holds at 1.1680/1700 and option activity drags it back to 1.1750 by 1600CET today.

Chris Turner

➔ GBP: Bears need patience

Sterling drew some support from a Bank of England press release which was not as [dovish as we had expected](#). Many of the decision-makers cited the fact that expectations for wage growth remained stubbornly high and were concerned about structurally high inflation.

We suspect that these wage expectations will come down in the New Year in line with lower headline inflation. In all, we continue to expect 25bp rate cuts in February and April, compared to market pricing of just one cut. And that should mean EUR/GBP continues to find support ahead of 0.87.

Chris Turner

⬇️ CZK: CNB shifts more dovish

The Czech National Bank [left rates unchanged at 3.50% yesterday](#), as expected. However, the

press conference brought a small dovish surprise as we mentioned the possibility here yesterday. The central bank changed the risk balance from pro-inflationary to balanced. The governor said that the main reason was the energy price subsidies announced on Tuesday, pushing inflation below the central bank's target.

The governor mentioned the impact of 0.3pp on headline inflation, which, according to our estimate, could be 0.4pp. He called this good news, but at the same time the bank board decided to look through it since it is a one-off. But the outlook for 2027 also shows inflation at 2%, making CNB more balanced now.

Our economists now see a rate cut in August next year. As we mentioned here previously, in our view, the market should switch pricing from rate hikes to rate cuts given the new inflation profile. This also puts pressure on FX in our view in the short term and we see EUR/CZK more around 24.400 after yesterday's dovish shift.

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