

FX Daily: Japan may wait for US data to intervene in FX

USD/JPY continues to test the highs in a low-volatility, risk-on environment. Key US data won't be released as soon as the government reopens, but Japan may wait for a USD-negative event to intervene. Meanwhile, UK growth underwhelmed, adding some pressure to GBP, which is already hit by political risk. Strong jobs data support our bullish AUD view



USD/JPY may keep creeping higher for now

We have published our [2026 FX Outlook: Play the ball, not the man](#) with our views and forecasts for next year.

➔ USD: Eyes still on USD/JPY

The US shutdown is over, but that isn't much of a development for the FX market per se. The White House said October payrolls and CPI data are unlikely to be released, meaning volatility will take time to pick up. Average G10 1-month implied volatility is now trading with the widest positive

spread (1.1 vol) above 1-month realised volatility since early April. That is mostly driven by very low realised (1m implieds remain below mid-October levels), but it is equally a signal that markets are starting to price in some data-driven shake-up in FX in the coming weeks.

At the same time, open interest on bullish Treasury options has increased significantly in the last few days, suggesting the prevailing call is soft US data prompting dovish Fed repricing. That is also our view, and with a December cut only 15bp priced in, we think the room for front-end rates spillover into the dollar is significant.

Japanese officials probably hope we are right, as USD/JPY continues to creep higher in the low-volatility, risk-on environment. The pair briefly breached 155.0 yesterday, as Japan's Ministry of Finance continues to send warning signs. We definitely are entering FX intervention territory, but even if intervening is the plan, there is an argument for the MoF to wait until US data releases resume.

Remember, in July of last year, the MoF surprisingly intervened after a sharp slowdown in US inflation, seemingly shifting strategy: intervening in a USD/JPY market-induced selloff, rather than in a rally. If our intuition is right, and the MoF sticks to mere verbal intervention for now, markets may keep testing the upside tolerance band at 156-157 in the next couple of weeks.

Elsewhere in G10, Australian jobs data for October came in strong overnight. The unemployment rate dropped back to 4.3%, suggesting the 4.5% September jump was a blip. The economy added jobs at the fastest pace (42k) since April, entirely driven by full-time hiring. AUD is rallying as the prospect of more RBA easing continues to be delayed: we expect only one more cut in 2026. The Aussie dollar remains our favourite G10 currency into the new year, and we target a move to 0.68 by mid-2026.

Francesco Pesole

➔ EUR: Consensus still seemingly bullish

In our FX Outlook webinar held yesterday (which can be rewatched [here](#)), we ran the following survey for our audience: where do you see EUR/USD ending 2026? 40% of the 105 respondents chose 1.20-1.25, which is in line with our call (1.22), 36% selected a stable 1.15-1.20 range and 18% expected depreciation to 1.10-1.15.

Only 2% and 4%, respectively, selected appreciation beyond 1.25 or depreciation below 1.10. These figures are broadly in line with consensus, which sees EUR/USD at 1.21 at the end of 2026, whilst also confirming that general expectations are for capped volatility in EUR/USD next year (which is one of our [key calls for 2026](#)).

Back to current matters, EUR/USD has been attempting a break above 1.160, and while we are bullish on the pair into year-end, we admit a decisive move higher may be a bit premature. Undervaluation has been trimmed to 0.5% in our short-term fair value model estimates, and the dollar is expensive to sell from a carry perspective. In our view, some soft US data is needed before 1.170 becomes a realistic short-term target for EUR/USD. For now, we expect more range-bound trading.

Francesco Pesole

➔ GBP: Soft growth data amid political noise

UK third quarter growth came in slightly below expectations this morning: 0.1% QoQ and 1.3% YoY. This complicates the job of Chancellor Rachel Reeves a bit more ahead of the UK Budget, where she'll try to reassure markets with fiscally prudent measures, whilst trying not to dampen growth excessively or stoke up inflation.

All this is happening in a moment of renewed turmoil in UK politics. Markets had initially dismissed reports about leadership challenges to Prime Minister Keir Starmer, but as the noise increased yesterday, we saw EUR/GBP starting to trade higher. The risk premium (short-term overvaluation) on the pair has now risen to 1.2%, in our view.

A major cabinet reshuffle or even a change of prime minister before the Budget seems unlikely, but with a December BoE cut still not fully priced in, we aren't too concerned about EUR/GBP strength. After the Budget (here is our [market preview](#)), we could see the pair settle around 0.88, but downside risks for sterling won't be exhausted in the short term.

Francesco Pesole

➔ RON: Inflation has stabilised, but it is still too early to talk about rate cuts

Yesterday's Romanian inflation numbers and the central bank meeting did not bring many surprises. The good news is that inflation has stabilised just below 10% at 9.8% as expected and will likely remain there for several months before we see the first decline in the middle of next year. The National Bank of Romania kept rates unchanged at 6.50% in line with expectations. Given the weakness of the economy, we expect the NBR to return to rate cuts in 2Q26, supported by a stagnant economy.

On Friday, we will see the GDP numbers and the NBR inflation report, which could tell us more about how close we are to these rate cuts. EUR/RON has stabilised around 5.085, and it seems that the central bank has the situation fully under control, and at the same time the pressure on a weaker RON has cooled. We expect changes in the level here only in the second half of next year. Of course, it is still important to monitor the continuation of consolidation efforts and policies. Another test for the government coalition will be the Bucharest mayoral elections after Nicusor Dan became president.

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