FX Daily: JGB sell-off vies for attention with Greenland

The re-opening of US markets has seen the dollar edge a little lower. Looking at the drop in US Treasuries, one could be forgiven for thinking this was a mini 'Sell America' moment. Instead, the large sell-off in JGBs is dragging global bond markets lower on the back of pre-election fiscal giveaways in Japan. It's too early to call for a major dollar sell-off

Japanese Prime Minister Sanae Takaichi has set the stage for a snap election next month, and pre-election fiscal giveaways have hit both JGBs and the yen

USD: Softer, but 'weaponisation of capital' risks look overblown

The re-opening of US markets after yesterday's public holiday has seen the dollar a little softer across the board. USD/JPY is the exception – see below. The S&P 500 looks set to reopen at around 1.5% lower than Friday's close. This would nearly match the sell-off seen in European bourses yesterday. There has been no major news on Greenland overnight, which leaves the market to focus on US President Donald Trump's Davos interviews and social media posts emerging tomorrow. Depending on how Davos discussions develop, we will then know whether EU leaders need to play hardball when they meet on Thursday, whether US tariffs on Europe go into effect on

1 February and whether Europe retaliates with a €93bn package of tariffs on 6-7 February.

There was much discussion yesterday over the 'weaponisation of capital' – that Europe could retaliate against the US by pulling some of its $8-12tr of US investments. The discussion sees figures cited like the $27tr Net International Investment Position (NIIP) deficit run by the US after decades of twin deficits. The NIIP represents the stock of US liabilities against its foreign asset position. The latest US release on the NIIP is instructive. Of the $3.2tr increase in US liabilities in the third quarter of last year, around half of that was driven by the valuation effects of US assets. Those valuation effects are why the European buy-side is in US asset markets. And until the performance outlook for those assets significantly shifts, we are unlikely to see a significant exodus of European capital from the US. At the same time, we note the foreign official sector has been selling US Treasuries for a while now, but has been swamped by private sector demand.

That said, we are a little negative on the dollar this year for macro reasons. But a 10% sell-off akin to last April's 'sell America' theme looks unlikely. This is also because the foreign buy-side now has more appropriate FX hedge ratios on US assets than the very underhedged positions being run last April.

Away from geopolitics, today's data calendar in the US only sees the weekly ADP jobs numbers. These are expected at around 10-12k again and support the low-hiring, but not deteriorating, US jobs market. DXY looks as though it wants to explore the downside with risks down to 98.65. But USD/JPY going bid may prevent DXY looking too offered.

Chris Turner

EUR: Pressure to step up

With the red lines of sovereignty being threatened, pressure is building for European political leaders to stand firm. FX markets seemed to like the speech from UK Prime Minister Keir Starmer yesterday that tariffs on allies were 'completely wrong'. EUR/USD broke technical resistance at 1.1640/50 overnight and looks biased to the 1.1690/1700 area. But as above, we think we are far from an environment that would trigger a major dollar sell-off. And again, we re-emphasise that seasonal factors tend to be more dollar-supportive, especially in February. Our one-month forecast of 1.17 for EUR/USD presented in our latest FX Talking feels about right.

In terms of eurozone data today, we will be interested in the German ZEW (expected to head toward one-year highs) and also the eurozone November current account data. This has been euro supportive – but we do acknowledge the recent rise in energy prices, particularly for natural gas, which can weigh on the eurozone's external position. That is another reason not to get carried away with the EUR/USD top-side too soon.

Chris Turner

JPY: Fiscal pulse takes its toll

Japanese asset markets are taking the strain of local politics. Having announced a snap election for 8 February to improve the Liberal Democratic Party's (LDP) standing, Japanese Prime Minister Sanae Takaichi yesterday promised a two-year removal of the 8% food tax. The bond market has not appreciated these fiscal give-aways and 30-year JGB yields are up a huge 25bp. The sell-off at the long-end of the JGB market is sending ripples through bond markets around the globe. With

Japan's fiscal pulse in full swing, it seems inflation expectations are on the rise. Derived through the nine-year inflation-linked JGB, inflation expectations are now up to 1.90%. The Bank of Japan is on a go-slow with its tightening cycle, so real interest rates are falling, and this is dominating yen pricing.

A further sell-off in JGBs would seem to drag USD/JPY towards intervention territory at 159/160. However, if the yen sell-off is a self-inflicted wound from the Japanese government policy, the effectiveness of intervention will become increasingly questionable.

Chris Turner

CEE: Global risk-off sentiment supports local pressure on FX

The National Bank of Romania left rates unchanged at 6.50% yesterday, as expected. According to the bank board, inflation should slow only slightly in the first quarter, but fiscal consolidation should support disinflationary pressure later. At the same time, fiscal policy, together with global developments, remains the main uncertainty for the central bank. We expect the restart of the cutting cycle in May this year, when the fiscal plan for 2026 should become clear, and inflation has approached a more certain decline due to the base effect from last year.

Today and tomorrow are rather muted in the region due to the absence of data. However, the global environment is keeping the region busy, and we will see full trading with the US returning after the holidays. Although CEE FX saw some downward pressure coming from risk-off sentiment, we generally did not see much of a reaction yesterday. We still maintain a bearish bias for all CEE3 currencies; however, EUR/PLN is anchored in our expected range of 4.220-230, which seems fair for now. Thursday's data could potentially show more room for rate cuts, and EUR/PLN could test the 4.230 level. EUR/CZK has faced the biggest upward pressure, confirming the bearish bias for the koruna that we have talked about since the beginning of the year, and heading towards the 24.350-400 range.

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