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FX

FX Daily: Yen finally finds some support

In thinning December markets, the Japanese yen has finally found some support. A speech earlier this week by Bank of Japan Governor Kazuo Ueda seemed to firm up views that the Bank is ready to hike on 19 December. We're mildly bearish on USD/JPY in 2026, but it will be a slow grind



↓ USD: Waiting for the seasonality to kick in

FX markets are relatively quiet. US interest rate volatility embodied in the MOVE index has dropped back to the lows of the year. Certainly, the stability of the US Treasury market has been one of the big surprises of 2025. As we move nearer to year-end in FX, we see the commodity currencies doing pretty well – or more precisely, the commodity currencies backed by metals. That was one of our [key calls for 2026](#), where we favoured Chile's peso and the South African rand on the metals story. This theme should be a multi-quarter one.

For the big dollar, it remains slightly offered on the view that the Fed will cut rates next week and that the arrival of Kevin Hassett as Fed Chair will somehow make the Fed more dovish. Were Hassett confirmed, we would look at the dollar through the lens of US real interest rates – in other words, if the Fed took rates too low relative to inflation expectations. Looking at two-

year US real interest rates derived from the two-year inflation swap, real rates actually rose 25bp between September and November, largely on a 50bp decline in inflation expectations. The scenario from a Hasset pick would surely be lower real rates as inflation expectations pick up. This should deliver a weaker dollar.

For the short term, however, there seems to be a consensus view that the dollar will weaken into year-end on seasonal flows. That is our view too, and why we have year-end targets at 1.18 and 152 for EUR/USD and USD/JPY, respectively. For today, the focus will be on the delayed core PCE inflation data and the latest consumer sentiment readings. Neither looks set to be a big market mover and more attention will be given to the 1800CET World Cup draw in Washington and whether President Trump is awarded FIFA's newly minted Peace Prize.

The longer DXY can trade under 99.00, the more likely it is a drop to the 97.80/98.00 area.

Chris Turner

↑ **EUR: Staying supported**

We'll probably be discussing this quite a lot over the coming weeks and months, but the cost for eurozone bond investors to FX hedge their US investments is tumbling. Using three-month forwards, the cost to hedge US risk back into the euro has now dropped to 1.82% per annum from 2.45% back in July. That is a big deal for a bond investor trying to pick up, say, an extra 150bp by investing in US markets. These US hedging costs are expected to drop further as the Fed cuts rates. And these dollar sales from the eurozone buy-side should be a key factor driving EUR/USD higher in 2026.

For today, the eurozone calendar is light. This afternoon, we have a speech from ECB Chief Economist Philip Lane. The subject is global imbalances. Expect to hear more about the international role of the euro and further strong encouragement for politicians to push through reforms, such that the euro can take advantage of the move to a [multipolar world](#).

Back to the short term, and we have a slight bias that EUR/USD trades to 1.1700/1730 and continues to find support in the 1.1630/40 area.

In the CEE space, the Polish central bank's news conference [left open the door for further rate cuts](#). After the close today, we could see Fitch revising its outlook for Hungarian sovereign debt to negative from stable. That's not good news for Hungary, but probably not bad enough news to dislodge carry trade hunters from their investments in the forint.

Chris Turner

↑ **JPY: BoJ finally provides some support**

October's spike in USD/JPY above 150 came as a shock to many (including ourselves). And by

mid-November, most had concluded there was little that could turn USD/JPY around apart from heavy official intervention at 160. Additionally, we've been asked several times whether the yen is losing its safe-haven status. We've replied that the benign risk environment means the yen has not seriously been tested on that score.

However, it now seems that the prospect of Bank of Japan hikes is finally supporting the yen. A 25bp hike is virtually priced for the 19 December meeting and the 1m JPY OIS rate, priced two years' forward, has moved to 1.47% from 1.14% in the last month alone. The view here seems to be that the new Japanese government, despite its reflationary credentials, does not want to embrace a weak yen and will allow BoJ rate hikes. We made this point in our [FX outlook](#) – namely that a weaker yen would only add to the cost-of-living crisis that caused so many problems for the LDP in the first place.

We've got a modest 152 target for USD/JPY by year-end. And also a modest 148 forecast for year-end 2026.

Chris Turner

➔ **GBP: Short squeeze continues**

Sterling continues to do well. We doubt this represents a major reassessment of UK sovereign risk, although we note that the 10-year Gilt swap spread has held onto its modest narrowing and is now at 48bp. This stood at 58bp in late September. We prefer to see the current sterling rally as a short squeeze.

We are a little bearish on the dollar and have a year-end GBP/USD target at 1.34. But we also favour some sterling underperformance against the euro as the Bank of England restarts its easing cycle this December. That should mean EUR/GBP does not spend too much time in the low 0.87s and should be back near 0.88 or above by year-end.

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