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FX

FX Daily: Yen under pressure, but this is no 2013

FX markets remain relatively quiet as the US government remains shut and Chinese Golden Week continues. The top story remains developments in Japan, where the election of Sanae Takaichi has knocked 6bp off the expected Bank of Japan tightening cycle and weakened the yen. We'll need to raise our USD/JPY forecasts, but this is no 2013 Abenomics story



Sanae Takaichi, the newly elected leader of Japan's ruling Liberal Democratic Party

➔ USD: Expensive to be short

The US dollar index has gone a little bid this week – largely down to the weakness in the yen, which has a 14% weight in the DXY. At the same time, the dollar is an expensive short position given its 4.15% per annum one-week interest rate. If no significant US data is forthcoming, there is even less reason to sit with – let alone add to – short dollar positions.

Interestingly, data from the IMF late last week undermined suggestions that central banks had been the big sellers of dollars in April and May. [COFER data reported](#) that, adjusted for exchange rates, the share of dollars in central bank FX reserves remained broadly flat in 2Q25 at around 57%. Instead, what makes more sense is that it was the private sector selling dollars

in the second quarter as they increased their hedge ratios on US investments. We expect these hedge ratios to be increased and the dollar to weaken further as the Fed cuts rates a further 100bp over the next nine months.

For today, it is not clear whether we will receive the August US trade data, where the deficit is expected to narrow. On the subject of the shutdown, the latest betting probabilities are slightly lowering their expectations (to 22%) of this shutdown being the longest in history – i.e. longer than 35 days. We will, however, hear from Fed speakers. Lining up today are Bostic, Bowman and Miran – all speaking around 1600/1630CET. We doubt they will move the needle on market expectations that the Fed will cut a further two times this year.

DXY should remain range-bound, but with a slight upside bias given developments in Japan and France.

Chris Turner

➔ **EUR: French politics is weighing**

My colleagues share their thoughts on the French political situation [in this article](#). The latest reports suggest President Macron has given the outgoing Prime Minister Sebastien Lecornu until Wednesday evening to try and work with a fractured parliament to find a new prime minister. It is not clear what would happen if Lecornu fails, with the options presumably being a pure technocrat for the job or early elections.

Betting markets currently price a 57% probability that early elections are called by the end of this month. But as our team writes, it's not clear that early elections will solve anything. Expect FX traders to keep one eye on the French: German OAT:Bund spread over the coming weeks and months. A move through 90bp would raise some alarm bells and add to some independent weakness in the euro.

EUR/USD has been finding support at 1.1650, but it feels like downside risks are building in the absence of fresh news from the US.

Chris Turner

⬇ **CZK: Inflation bump on the road to a stronger koruna**

Today, we will see several figures from the real economy in the region, led by industrial production in the Czech Republic for August. Still, the main topic should be the Czech market after the general election and yesterday's [lower-than-expected inflation](#). For now, it seems that inflation, at 2.3% year-on-year and 0.3pp below the Czech National Bank's forecast, has overshadowed the impact of the elections on the market. The main driver was a surprise decline in food prices, while service prices remain unchanged in year-on-year terms. Therefore, we believe that this does not change the Czech National Bank's narrative too much, and we

will not see a reversal in forward guidance.

However, the short end of the curve has fallen, leading to a significant narrowing of the interest rate differential, suggesting some trouble ahead for the strengthening CZK and keeping EUR/CZK at 24.350 for some time. However, since we believe that the CNB story remains unchanged and inflation should accelerate again in the coming months, we doubt any near-term koruna weakness will be more than temporary.

Chris Turner

📉 JPY: A softer profile yes, but this is no 2013

The 'Takaichi trade' has indeed delivered a steeper yield curve, an equity rally and a weaker yen. The presumption here is that the new government under Sanae Takaichi exerts all its influence to deliver a stronger economy. This would include the Bank of Japan presumably ending, if not reversing, its tightening cycle and some heavy fiscal stimulus. Parallels are being drawn to Shinzo Abe's term of 2013-20, which saw the Bank of Japan grow its balance sheet from 30% to 100% of GDP and the trade-weighted yen initially fall around 25%.

The big difference between 2013 and today is inflation. Back in 2013, Japan had been suffering deflation and a new BoJ Governor in March 2013, Haruhiko Kuroda, instituted a new 2% inflation target. Today, Japan's inflation is above 2%. Inflation is proving to be a top concern for voters, and the current BoJ Governor, Kazuo Ueda, with three years left on his term, is in the process of raising interest rates and shrinking the central bank's balance sheet. This is the case for USD/JPY not now surging towards 160.

For the near term, the focus is going to be on what pressure is brought to bear on the BoJ. Markets now price only a 20% chance of a rate hike at the 30 October meeting. A delay in a hike into next year or even later will further weigh on the yen. But if we're right with our call for a weaker dollar into November and December, USD/JPY could be ending the year nearer to 145 than 155.

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