Macro Trading Strategy

18 August 2026

Big Picture – FX carry vs what it would take to get FX trends

Key points

- Remarkably range bound FX trading (e.g. EURUSD) - can last into year-end judging by previous episodes.
- A disruptive trend move more likely to come as short USD on the back of a disinflation theme given implied long positioning in USD.
- FX Carry continues to outperform trend strategy - risk is inherent long commodity and equity bias in carry strategies.
- Consider adjusting carry basket composition - funder rotation from JPY to CAD and SEK and reducing NOK long to decrease commodity beta, add some short USD beta and 'tail protection'.
- Optionality overlay for disruptive trend move - e.g. low delta wings on EURUSD.
- Idiosyncratic overlay - EURJPY and EURGBP display the least beta to global factors.

Despite everything that has happened this year with the conflict in the middle east, disruption to the strait of Hormuz and repricing for central banks there has been remarkably little trend in FX. So, what would it take to get some bigger moves?

- The current range trading feels like it has been ongoing for a long time already but both in 2015/16 and 2023/24 we had range trading episodes that lasted for 18-20 months in EURUSD – today that would take us into year-end (upper left chart).
- If we isolate episodes where EURUSD had an absolute move of 10% over four months we can look at underlying factors (rates, rate differentials, yield curve, VIX, equities, oil) and filter for the larger moves in those drivers, which coincided with stronger FX trends (upper-right table).
- This can give us some indication of what would need to happen to significantly dislodge the dollar from the current range (bottom chart and table).

USD trend episodes: Associated moves in underlying factor

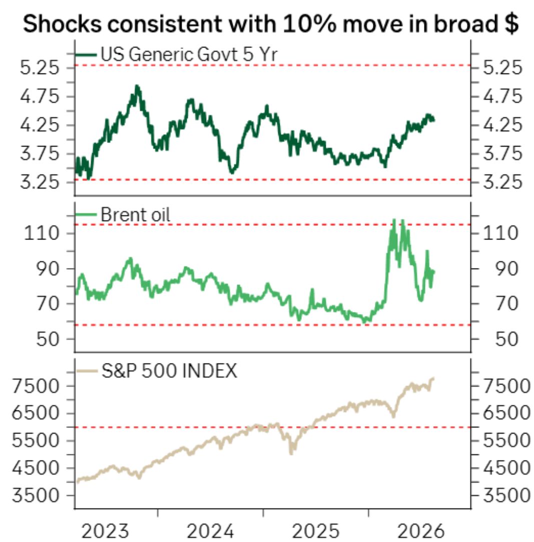
4m driver moves in |EURUSD| > 10% episodes
cells = raw move (bp / %)
colour = percentile of full-sample distribution

		US 5y (bp)	US 10y (bp)	EUR-US 10y (bp)	US2s10s (bp)	VIX (points)	SPX (%)	Brent (%)
2000-05	-14%				-53	9		
2000-10	-13%	-46		39		7	-5	
2001-07	-10%		46		69	-6		
2002-07	+15%	-119	-89	45	42	20	-25	
2003-02	+12%			-44	27		-8	19
2003-06	+11%	-88	-85	33	-33	-12	18	-14
2003-12	+16%			28				
2004-12	+13%			-42	-54		9	
2005-07	-11%		-48		-48			
2008-04	+11%	-65			77		-7	24
2008-11	-21%	-91		-47	98	41	-32	-60
2009-07	+13%	71	73	-33	57	-24	35	58
2010-10	+16%	-67	-63	35	-34	-14	9	
2011-05	+14%			56				28
2011-10	-10%	-72	-124		-107	27	-14	-13
2015-03	-16%			-27	-39			-32
2017-08	+12%			39				
2020-09	+10%					-8	24	53
2022-09	-10%	137	108		-70	6	-12	-32
2023-01	+13%	-56	-44	41	-38	-13	10	
2025-06	+13%				30			

Source: Bloomberg, Macrobond, SEB

Examples: shocks to generate a 10% broad USD move

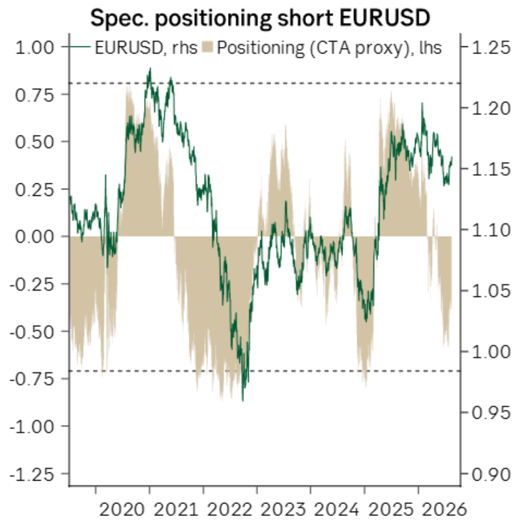
Factor driver:	Theme:	Move:
US 5Y +100bps Oil near 120Usd	Geopolitical escalation: Hormuz or Russia	Usd (+)
US 5Y -100bps Oil near 60Usd	Geopolitical normalization: Oil glut	Usd (-)
Equities -30%	AI theme correction	Usd (-?)
US curve steeper & equities lower	Sell USA theme: Japan capital repatriation, higher FX hedge ratios, AI theme deflating	Usd (-)



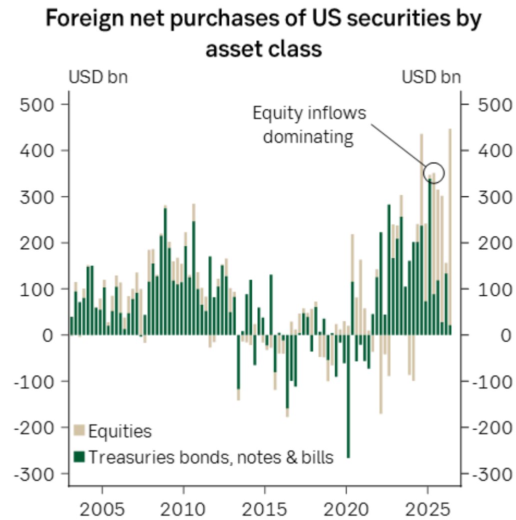
Source: Bloomberg, Macrobond, SEB

With the current market set-up, a short USD trend would seem to be the more likely direction of travel:

- **Speculative positioning looks short EURUSD**, while the Dollar looks increasingly underpinned by equity inflows (i.e. would a market/AI theme correction be associated with USD depreciation?) as is illustrated in the upper two charts.
- **Meanwhile exposure to USD assets is high,** as FX hedge ratios have declined a fair bit, while there is also an increasing risk that Japanese capital flows can reverse (Japanese real money allocating to JGBs instead of US treasuries on an unhedged basis) as shown in the bottom two charts.



Source: Bloomberg, Macrobond, SEB



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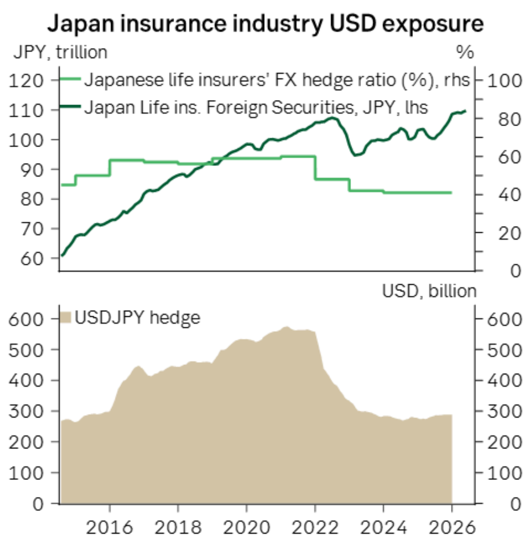

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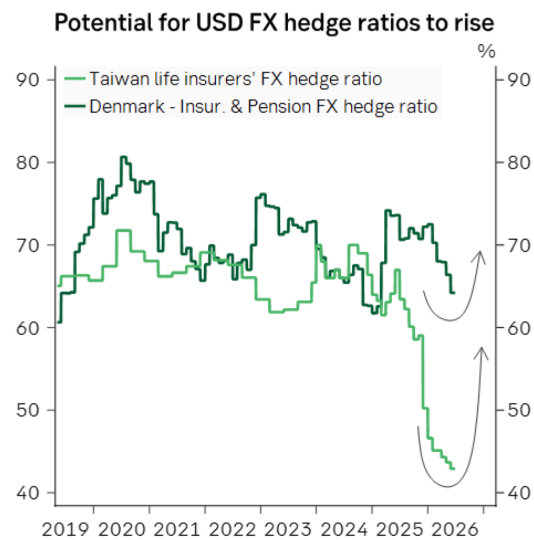
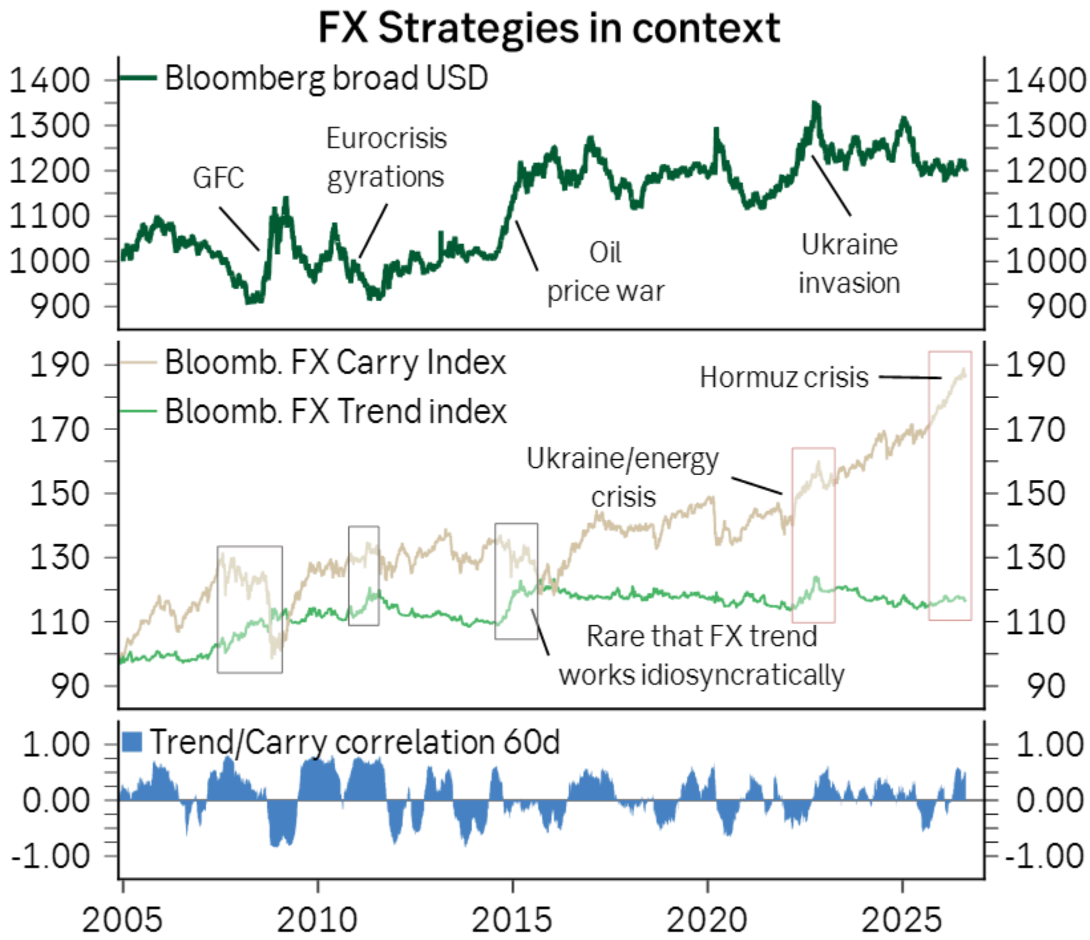


Source: Bloomberg, Macrobond, SEB

So, how could one approach FX trading from a bigger perspective?

- **Simplistically looking at FX strategy indices illustrates that carry has been winning out over time**. Carry has also worked well in the 'new type' of supply side crisis (Ukraine invasion and Hormuz closure), while trend strategies worked as a diversifier during shocks such as the GFC, Euro crisis and the oil price war (2014-15).



Source: Bloomberg, Macrobond, SEB

- **A pro-carry bias is a reasonable starting point, but it is worth thinking a bit extra about the risks now.** A carry basket will tend to naturally have a positive commodity and equity beta. A risk would therefore be a stronger **disinflation trend** (e.g. Hormuz open and oil below $60 in 2027), which is not straight forward to hedge away by picking the right funding currencies (hard to find low yielders with strong positive commodity beta – left chart below), however, NOK could be avoided as a long.
  Hedging away an **equity beta** should be more possible by e.g. picking CAD and SEK as funders, which is a funder diversification that could prove necessary in any case if JPY is now impaired due to intervention risk.

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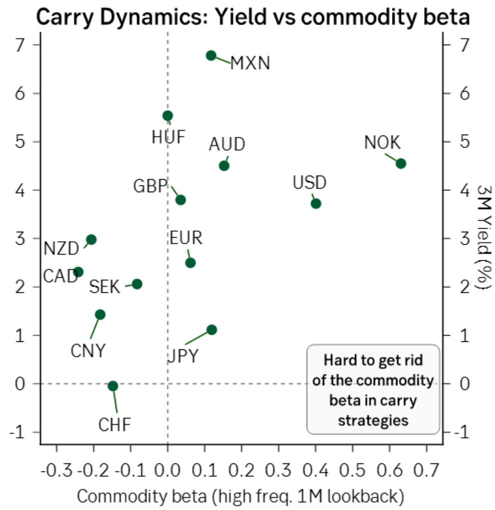

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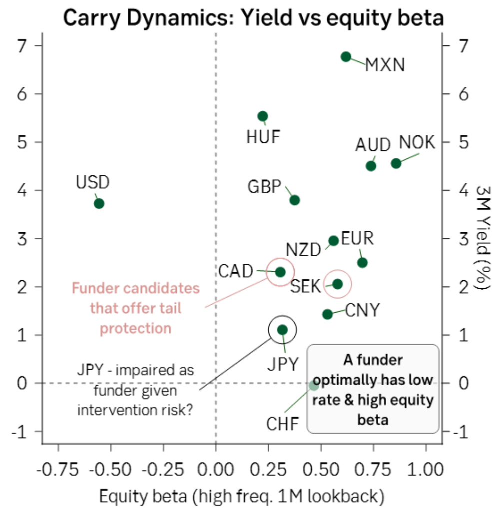
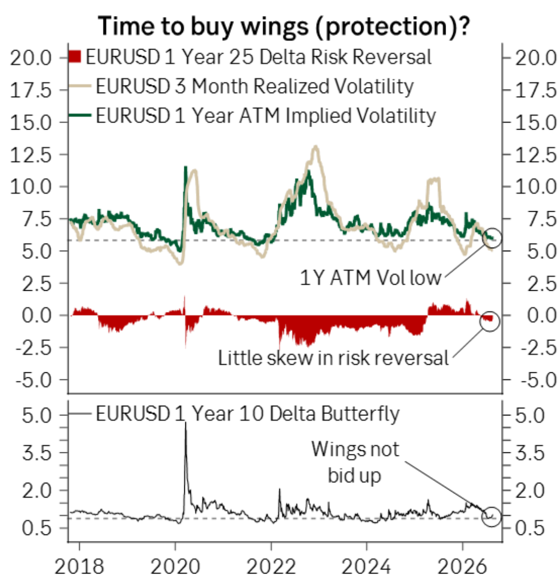


Source: Bloomberg, Macrobond, SEB

- **A stronger disinflation trend (and risk to carry) could also be associated with a stronger depreciation trend in the USD** (as discussed previously). With implied volatility quite low in e.g. EURUSD and low delta options not particularly bid up (pricing of butterflies), one approach could be to **consider overlaying FX carry with longer dated low delta EURUSD calls.**
- **Meanwhile, idiosyncratic FX trading opportunities in G10 have been strongest for Yen and Sterling** (judged by the low explanatory power, R-squared, from a factor regression framework).



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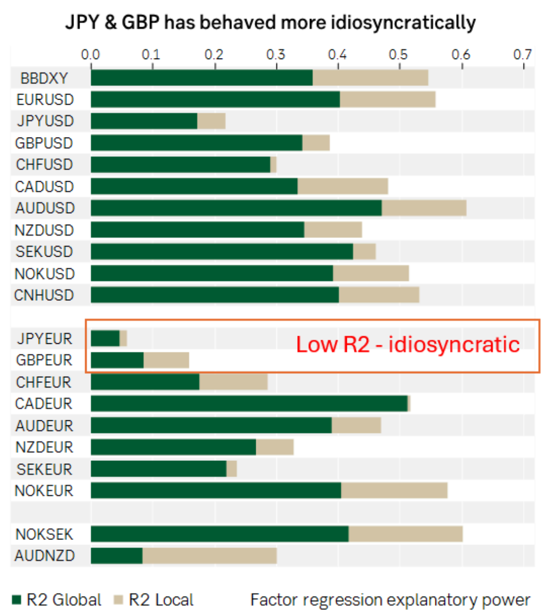

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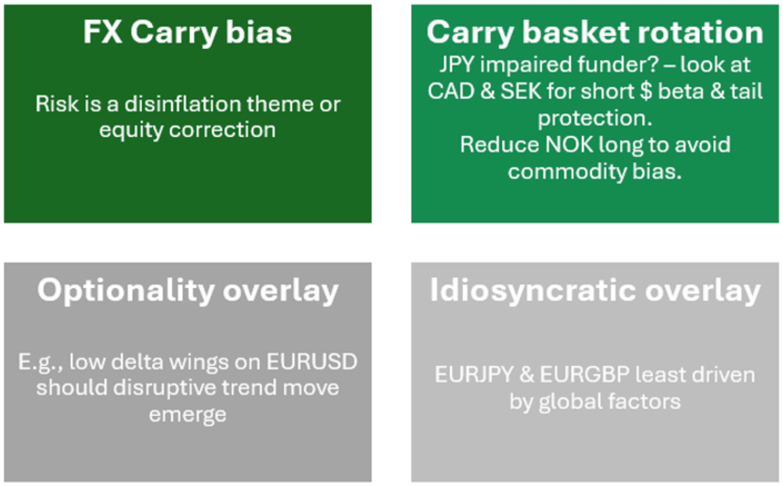
In summary this top-down perspective would suggest:



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