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# Promise of fiscal action in US as China hints at fiscal expansion

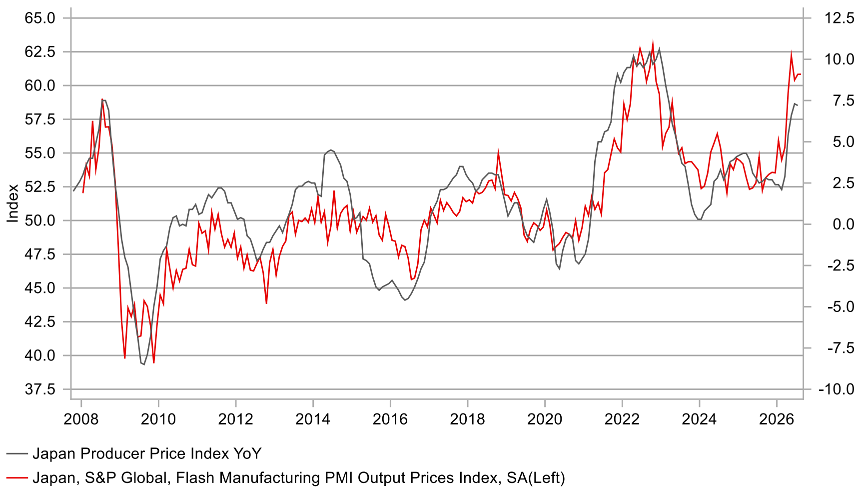
**21st August 2026**

## USD: US fiscal plan unlikely to amount to much

The US dollar has weakened further today after stabilising yesterday with investors focused on potential further action by the US Treasury to stem the decline in UST bond yields. Yields are broadly unchanged today although JGB yields have jumped following the release of nationwide CPI data for July which revealed a rebound back toward the 2.0% level. The core-core CPI rate jumped to 1.9% with underlying inflation lifted by certain foods and dining out. The data backs up current market pricing, and our view, that the BoJ will hike rates by 25bps at the next policy meeting in September. Market pricing currently implies about an 80% probability of a hike. There has been limited opportunities for guidance from the BoJ of late but next Friday Deputy Governor Himino is scheduled to speak and that could be an opportunity for cementing expectations of further of action in September. The long-end of the yield curve continues to show the need for credible monetary action with super-long JGB yields higher by 4-6bps today.

Stronger inflation in Japan has had a limited FX impact with USD/JPY stable but AUD and NZD are performing best in G10 and Asian currencies are mostly stronger versus

PIPELINE INFLATION PRESSURES REMAIN STRONG IN JAPAN

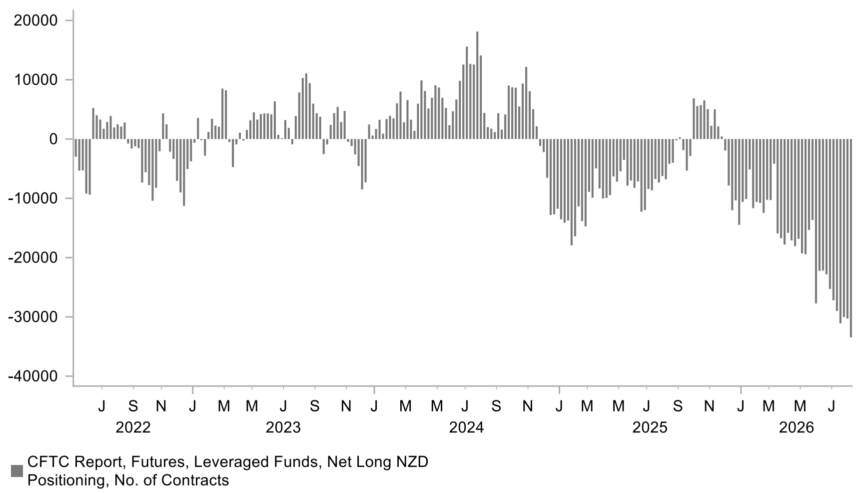



*Source: Bloomberg, Macrobond, MUFG Research* the US dollar in part on the back of comments from Vice Finance Minister Liao Min who stated today that the government was "studying and drafting" new fiscal and financial policies that planned to be introduced in the second half of this year. We will see what comes from this in details over the coming days but if it's more of the same focusing on efforts to boost private credit demand, it is unlikely to have any meaningful impact on shaping growth expectations. So any market impact is likely to be minimal.

The US now looks to be signalling it is heading in the opposite direction after Scott Bessent stated that the Treasury would announce today or early next week "an increased focus on fiscal consolidation". Bessent also stated that President Trump had tasked him and Budget Director Russ Vought on that fiscal initiative. Obviously, we like many market participants, are very sceptical of the US announcing anything of any significance that would lead to credible fiscal consolidation. The mid-terms are approaching and the Republicans simply don't have the numbers in Congress and Trump doesn't have the resolve for that. So whatever is announced will be nothing more than tinkering at the edges.

A US fiscal initiative that lacks credibility won't help UST bonds or the dollar but the appetite to sell the dollar remains contained by Middle East risks. For Europe that is evident through the steady rise in natural gas prices. TTF is now at the highest level since early 2023 and has gained a further 13% in August. The advance PMIs will be released today and there's a risk we see evidence of sentiment worsening as companies in Europe fear another energy-related hit to underlying margins. It's difficult to envisage in these circumstances much further upside for EUR/USD over the short-term.

LEVERAGED FUNDS' SHORT NZD POSITION IS CURRENTLY THE LARGEST ON RECORD IN THE SERIES BACK TO 2006




*Source: Bloomberg, Macrobond, MUFG Research*

**NZD: FX positioning points to rates pricing scepticism**

The weekly IMM positioning data is a data series tracked by many without necessarily throwing out a strong message but the positioning for the New Zealand dollar is definitely worth highlighting. The latest data, to the week ending 11th August, revealed Leveraged Funds' total short position had hit a record in the series of the data going back to 2006. On a year-to-date basis NZD is actually the third best performing G10 currency after NOK and AUD. The RBNZ policy rate currently stand at 2.50% but the OIS curve implies expectations of nearly 100bps of tightening over the next 12mths. In real terms, the policy rate today is certainly quite loose – the actual inflation rate stands at 4.1% (Q/Q) although the monthly data shows slightly lower at 3.6%. Still, the real policy rate is more negative than across most of the rest of G10 and that could be encouraging this speculative selling.

The positioning could also reflect scepticism over the ability of the RBNZ to deliver 100bps of tightening over the next year. The labour market showed the unemployment rate increased from 5.4% to 5.6% despite a strong increase in employment highlighting increased labour supply and greater economic slack than assumed. That increased supply doesn't appear linked to immigration either with the figures on net migration showing a sharp slowdown. Stats NZ reported net migration of 17.6k in the year to June 2026, down from a record high of 134k in June 2023. Natural population growth is now the lowest since the 1940s. Potential growth is unlikely to expand as much as before.

Finally, the positioning may well reflect a bilateral view versus AUD. The AUD/NZD cross is key for NZD and there remains a far more attractive yield pick-up in Australia with the RBA continuing to communicate a relatively hawkish message on the potential for another rate hike. We would certainly concur with the view that the OIS curve for the RBA may be underpriced (less than one hike priced over 12mths) and the RBNZ pricing is too aggressive. The positive AUD angle also incorporates energy and Middle East risks are more a benefit for AUD than NZD.

While 100bps of tightening may prove excessive, the scale of short NZD positioning looks more extreme and we would argue at this level, the bar is relatively high for a notable leg lower for NZD. We should also be mindful of a potential flip in the terms of trade bias. The El Nino risks point to clear upside potential for food inflation over the coming 6mths and that could provide NZD with a positive terms of trade lift.

## KEY RELEASES AND EVENTS

| Country | BST | Indicator/Event | Period | Consensus | Previous | Mkt Moving |
|---|---|---|---|---|---|---|
| GE | 08:30 | German Manufacturing PMI | (Aug) | 52.1 | 52.2 | !!! |
| GE | 08:30 | German Services PMI | (Aug) | 50.1 | 49.8 | !!! |
| GE | 08:30 | German Composite PMI | (Aug) | 51.3 | 51.3 | !! |
| EZ | 09:00 | Manufacturing PMI | (Aug) | 51.8 | 51.9 | !!! |
| EZ | 09:00 | Services PMI | (Aug) | 51.5 | 51.7 | !!! |
| EZ | 09:00 | S&P Global Composite PMI | (Aug) | 51.7 | 52.0 | !! |
| UK | 09:30 | Composite PMI | (Aug) | 51.6 | 52.2 | !! |
| UK | 09:30 | Services PMI | (Aug) | 51.8 | 52.1 | !!! |
| UK | 09:30 | Manufacturing PMI | (Aug) | 51.6 | 51.9 | !!! |
| CA | 13:30 | Core Retail Sales (MoM) | (Jun) | 0.2% | 1.2% | !! |
| CA | 13:30 | Retail Sales (MoM) | (Jun) | 0.4% | 1.0% | !! |
| US | 14:45 | Manufacturing PMI | (Aug) | 54.0 | 53.9 | !!! |
| US | 14:45 | Services PMI | (Aug) | 53.9 | 54.6 | !!! |
| US | 14:45 | S&P Global Composite PMI | (Aug) | - | 54.5 | !! |
| EZ | 15:00 | Consumer Confidence | (Aug) | -16.0 | -15.9 | ! |
| CA | 15:30 | BoC Senior Loan Officer Survey | (Q2) | - | 1.0 | ! |

*Source: Bloomberg & Investing.com*

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