Foreign Exchange Outlook

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KEY EVENTS IN THE MONTH AHEAD

1) EVERY G10 CENTRAL BANK MEETS

The US dollar declined by 0.4% in August, the second consecutive month of decline with the July drop driven by joint yen buying intervention by Japan and the US. The main catalyst for the drop in August was US policy related again, this time the UST bond buyback announcement by the US Treasury on 19th August. The drop in August would have been larger were it not for the Jackson Hole speech by Fed Chair Warsh that lifted expectations of a rate hike. The FOMC meeting will be the key central bank event in September (16th) – a month in which every G10 central bank will meet. The probability of a Fed hike is now at over 60% but the nonfarm payrolls report (4th) and the CPI report (11th) will now be key for shaping that key policy decision. The RBNZ and the Bank of Canada are first up on 2nd Sept with the RBNZ close to fully priced to deliver a 25bp hike. The ECB will follow on 10th Sept and is expected to deliver a 25bp hike. The day after the Fed, the BoE is scheduled to meet with the markets nearly fully pricing no change in policy. The BoJ meets on 18th Sept and like with the RBNZ and ECB is nearly fully priced for a 25bp hike. The following week Norges bank, the Riksbank and the SNB all meet on 24th Sept with Norges bank pricing of a hike similar to the pricing for the Fed (60%). The busy month for G10 central banks closes out with the RBA meeting on 29th Sept – a hike by the RBA is close to 50% priced and will likely be determined by data from Australia throughout the month.

2) MIDDLE EAST RISKS LINGER AS ENERGY PRICES RISE

Brent crude oil advanced only marginally in August but there were bigger increases in natural gas prices suggesting not as much supply is getting out of the Strait of Hormuz coupled with increasing demand in Europe with storage levels at extreme lows for this time of the year. TTF natural gas in Europe jumped 20% in August and from the low in late June is up by 73%. The level of natural gas prices are above both assumptions made by the BoE and ECB raising upside risks to inflation. At the end of August there was also a re-escalation of the conflict between the US and Iran and with no obvious end in sight to the conflict, there is an increasing risk of more substantial rises over the coming months. Refinery outages have also picked up markedly due to the Russia-Ukraine conflict with diesel prices rising sharply. The European average pump diesel price has rebounded by over 20% since early July and is close to the highs set in April.

3) TRUMP-XI SUMMIT ON 24TH SEPTEMBER

The 24th September Trump-Xi summit in Washington is shaping up as the most important US-China diplomatic event of 2026. Whether the two sides can stabilise relations, reduce policy uncertainty and avoid escalation in areas such as trade, technology restrictions, AI cooperation, and geopolitical issues, remain the market's top focuses. A major breakthrough still appears unlikely, but even improved communication and limited progress on certain key concerns would help sentiment, and prove modestly supportive for the renminbi and broader Asian FX.

Contents

Forecast rates against the US dollar - End-Q3 to End-Q2 2027

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
DXY	99.565	100.190	98.070	96.530	96.200
JPY	160.03	158.00	156.00	154.00	152.00
EUR	1.1598	1.1500	1.1800	1.2000	1.2000
GBP	1.3556	1.3450	1.3640	1.3790	1.3710
CNY	6.7272	6.7000	6.6500	6.6000	6.6000
AUD	0.7166	0.7100	0.7200	0.7300	0.7400
NZD	0.5913	0.5800	0.5900	0.6000	0.6100
CAD	1.3897	1.4100	1.3900	1.3800	1.3600
NOK	9.3791	9.4780	9.3220	9.2500	9.2500
SEK	9.5944	9.7390	9.5760	9.2500	9.0830
CHF	0.8086	0.8130	0.7880	0.7670	0.7630
CZK	20.805	20.960	20.250	19.830	19.750
HUF	314.83	317.40	309.30	300.00	295.80
PLN	3.7423	3.7570	3.6440	3.5670	3.5500
RON	4.5316	4.5830	4.4920	4.4420	4.4670
RUB	85.375	84.310	85.110	85.320	87.160
ZAR	16.135	16.300	16.000	15.800	15.600
TRY	48.240	49.000	51.500	53.500	55.500
INR	95.380	95.500	95.500	96.000	96.500
IDR	17689	18100	18350	18500	18700
MYR	4.0230	4.0500	4.0300	4.0000	4.0000
PHP	62.249	62.200	62.000	61.500	61.000
SGD	1.2744	1.2800	1.2750	1.2700	1.2700
KRW	1378.7	1380.0	1370.0	1360.0	1350.0
TWD	31.609	31.500	31.400	31.000	30.700
THB	33.103	33.500	34.100	34.000	33.800
VND	26073	26050	26100	26200	26300
ARS	1513.1	1540.0	1600.0	1655.0	1700.0
BRL	5.2147	5.2500	5.1500	5.0000	4.9000
CLP	927.85	930.00	915.00	880.00	870.00
MXN	17.040	17.100	17.000	16.850	16.500
SAR	3.7543	3.7500	3.7500	3.7500	3.7500
EGP	50.220	49.750	51.000	52.500	54.000

Notes: All FX rates are expressed as units of currency per US dollar bar EUR, GBP, AUD and NZD which are expressed as dollars per unit of currency. Data source spot close; Bloomberg closing rate as of 4:30pm London time, except VND which is local onshore closing rate. All consensus forecasts are Bloomberg sourced.

US dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/JPY	160.03	158.00	156.00	154.00	152.00
EUR/USD	1.1598	1.1500	1.1800	1.2000	1.2000
		Consensus	Consensus	Consensus	Consensus
USD/JPY		159.00	158.00	156.00	155.00
EUR/USD		1.1600	1.1600	1.1700	1.1800

MARKET UPDATE

USD weakens further vs EUR

In August the US dollar weakened further against the euro in terms of London closing rates, from 1.1509 to 1.1598. However, the dollar strengthened against the yen, from 159.23 to 160.03. The FOMC did not meet in August and hence the range for the federal funds was unchanged at 3.50%-3.75%. The FOMC confirmed the end of QT effective December last year with the Fed no longer reducing UST bond holdings. MBS holdings continue to decline but are offset by buying of US T-bills, now estimated to be running at around USD 25bn per month.

OUTLOOK

USD debasement risks return but selling was brief

The US dollar depreciated in August, on a DXY basis the drop was 0.5%, driven primarily by the decision of the US Treasury to announce an increase to the scheduled buybacks of longer-term UST bonds. Understandably that triggered concerns of yields being distorted lower that resulted in an immediate drop in the dollar. Given this followed the decision to join Japan in buying the yen that was again related to keeping US yields lower (reducing Japan's need to sell UST bonds to finance USD sales) investors are being given the impression of growing concerns in Washington over rising yields. Of course, without addressing the underlying reasons for rising yields (fiscal outlook and Fed's reaction function in fighting inflation), yields could remain under upward pressure. Attempts to cap yields without addressing the fundamental factors behind the move does not instil confidence amongst global investors and the prospect of fiscal consolidation ahead of the mid-terms or even through the remainder of Trump's term in office remains very low.

Warsh speech prompts a rethink on Fed action in September

However, the US dollar debasement theme did not last too long with rising yields ultimately helping to provide support for the dollar. Pricing for a rate hike by the Fed in September jumped from about 35% to 60% following Warsh's Jackson Hole speech. His comment that the Fed has "work to do" if inflation doesn't move to the 2% inflation target "with sufficient speed" and his acknowledgement that financial conditions are not restrictive clearly points to an increased risk of a 25bp rate hike in September. There will be some uncertainty that will persist given there is another NFP and CPI data release before that meeting, but we now would likely need to see another weak NFP and CPI print and some further retracement of energy prices to provide the justification not to act. The decision to hike in September now looks like a very close call and a lot must go the same way for the Fed to remain on hold.

USD depreciation ahead beyond near-term

The decision to hike, if it happens, is unlikely to be a gamechanger for the dollar. Developments abroad also point to other central banks being more hawkish than we initially expected. A third rate hike from the ECB is becoming a bigger risk, a hike by the BoE, the RBA and Norges bank (all not fully priced) are possible either in September or by year-end and hence rate spreads are unlikely to move dramatically in favour of the dollar. We'd also assume it more likely than not that a Fed hike could prove a one-off based on our view of a decline in energy prices, weak jobs and CPI.

	Interest Rate Close	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Policy Rate	3.63%	3.63%	3.63%	3.38%	3.13%
3-Month T-Bill	3.83%	3.63%	3.55%	3.30%	3.13%
10-Year Yield	4.75%	4.50%	4.38%	4.25%	4.13%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

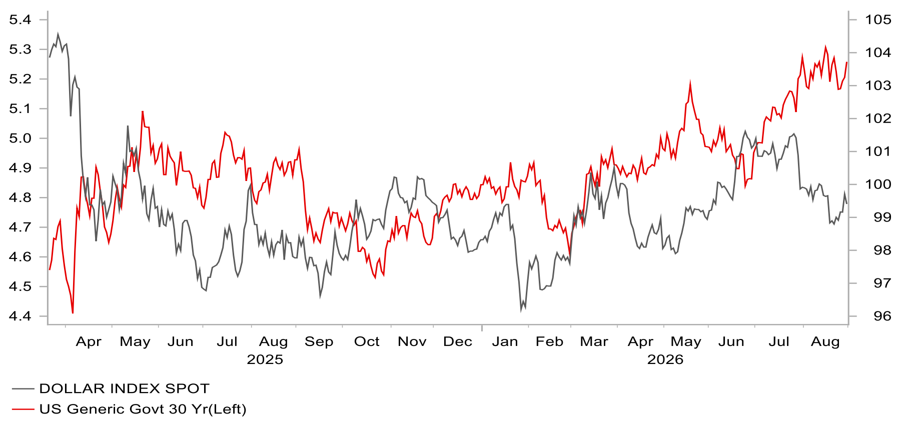
INTEREST RATE OUTLOOK

As we say, Fed Chair Warsh sounded convincingly hawkish but is largely still noncommittal on the policy path ahead. We believe upcoming US data will carry more weight than usual and that NFP might matter more than CPI for the September FOMC decision. Overall, we think hiking rates in response to supply shock induced inflation will ultimately prove a policy mistake, one that chair Warsh won't take so early in his tenure. If the outlook changes, we reserve the right to change our view.

Chair Warsh has been speaking to markets with an ever increasingly hawkish tone (see link for recent Jackson Hole Recap). The market has been yearning for some insights into Warsh's framework and might be misconstruing what we heard at Jackson Hole as forward guidance vs just a chair that is focused, in his words on "displine" but not one ready to make a "decision". At the time of writing, ahead of critical US data that might be the final factors that drive a hike or a hold, the markets are pricing well over 50% that the Fed will hike at the September meeting. We acknowledge that every meeting now will be live, yet that requires that the inflation data doesn't improve and/or the US jobs data needs to remain solid. This is why for us, NFP actually matters more before the Fed goes into blackout period. If we get another weak report that should reduce the odds of a hike back under 50%. We recently changed our Fed call to suggest the Fed remains on hold (see link) for the balance of 2026. However markets will continue to price in hikes (just like they used to price in cuts) until a new narrative comes our way. We think a rate hike at this stage of the cycle will ultimately be a policy error but if the data improves we reserve the right to reassess. (George Goncalves)

Treasury buybacks weakened the dollar

US 30-YEAR TREASURY YIELD VS. DXY



Source: Bloomberg, Macrobond & MUFG GMR

Rising yields increasingly reflect fiscal concerns

US 10YR TERM PREMIUM

Source: Bloomberg, Macrobond & MUFG GMR

Japanese yen

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/JPY	160.03	158.00	156.00	154.00	152.00
EUR/JPY	185.60	181.70	184.10	184.80	182.40
		Consensus	Consensus	Consensus	Consensus
USD/JPY		159.00	158.00	156.00	155.00
EUR/JPY		184.00	183.00	183.00	182.00

MARKET UPDATE

JPY weakens modestly vs USD

In August the yen weakened modestly versus the US dollar in terms of London closing rates from 159.23 to 160.03. In addition, the yen weakened versus the euro from 183.26 to 185.60. The BoJ did not meet in August and hence the key policy rate was unchanged at 1.00%, the highest level since 1995 following three 25bp hikes since January 2025. The BoJ continues to cut JGB monthly purchases at a pace of reduction of JPY 200bn per quarter through to Q1 2027 and will then halt the reduction with monthly purchases by then falling to JPY 2trn per month.

OUTLOOK

Yen stabilises after quick partial retracement of intervention gains

Intervention to buy the yen in late New York trading on 31st July saw the yen extend gains at the start of August but USD/JPY quickly retraced and August was more about stability with the range of 158.00-159.00 holding from 10th August until the final two days of the month. Joint intervention matters but policy matters more and doubts continue to linger on whether this joint action will lead to any coherent shift in economic policy in Japan. PM Takaichi is viewed as having a strong bias favouring a reflationist approach and hence concerns over the fiscal policy outlook is deterring a more notable gain for the yen. The near-term energy risks are likely also playing a role in limiting demand for the yen. After the start of the US-Iran conflict Japan turned to its oil reserves and energy imports in the period March to May remained relatively subdued. However, mineral fuel imports have surged with the July fuel import bill 60% higher than the average monthly bill between March and May.

The BoJ to hike but speed of getting to the terminal rate is important

At the end of August the OIS market implied a 90% probability of a rate hike at the next meeting in September. By mid-2027 the market now expects the BoJ policy rate to reach 1.75%, perhaps around the mid-point of the previously cited R* range of between -1.0% and +0.5%. Deputy Governor Himino gave a speech and despite offering no explicit guidance on a hike was clearly on the hawkish side and effectively endorsed current market pricing. But the issue for the yen is the speed of getting to neutral and given it is so drawn out – at least another year based on current pricing – there is a perception amongst investors of a reluctance to lift rates to that level or even an ability to do it given the implications on the cost of servicing Japan's debt. That uncertainty raises fears over 'fiscal dominance' – when monetary policy is dictated not by the inflation outlook but by the constraints of the debt burden. So the quarterly pace of hiking (June/September) is not priced to continue and that reflects to a degree the continued caution of the BoJ. The BoJ forecasts core nationwide CPI at 2.4% in FY2027 while the OIS market implies a policy rate of 2.25% in two years pointing to a negative real policy rate over all that period.

USD/JPY declines but only gradually

A BoJ rate hike in September is nearly fully priced and two further hikes by mid-2027 are also priced. Hence action in September won't be a big driver of yen strength. For USD/JPY the removal of the Fed tightening priced in the curve will help USD/JPY move lower, but Japan factors will contain the extent of any move lower.

	Interest Rate Close	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Policy Rate	1.00%	1.25%	1.25%	1.50%	1.75%
3-Month Bill	1.08%	1.10%	1.30%	1.50%	1.80%
10-Year Yield	2.96%	2.90%	2.80%	2.80%	2.70%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

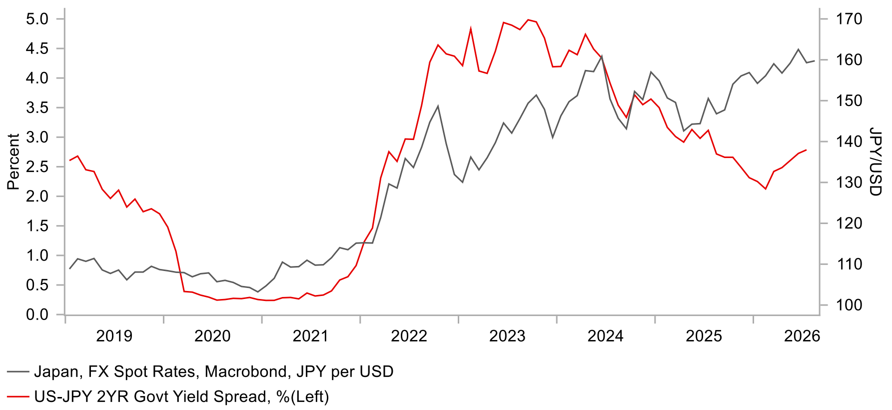
INTEREST RATE OUTLOOK

Yields to stabilise as neutral rate comes into sight

The 10-year JGB yield increased against in August, by 15bps to close at 2.96%, the highest monthly close since 1997. Deputy Governor Himino's speech in August certainly indicated the willingness of the BoJ to speed up the pace of monetary tightening. But that flexibility is two-way and it remains unclear how quickly the BoJ will act to get to the neutral rate that we see at around 1.75%-2.00%. The appraoch of this level should certainly help flatten the yield curve and improved confidence in JGBs should see the multi-year grind higher in 10-year yields come to a halt. The JGB yield move lower also reflects our global view of lower yields across G10 driven primarily by lower UST bond yields. There is also some uncertainty over the outlook of monetary policy in the second half of next year. Naoki Tamura and Hajime Takata are both scheduled to leave the policy board in July 2027 when their terms expire and PM Takaichi is likely to replace the two most hawkish board members with more dovish reflationists. In theory that could make it more difficult to vote through further rate hikes making it important to have the policy stance near neutral by then.

Markets expect further tightening but doubt the speed

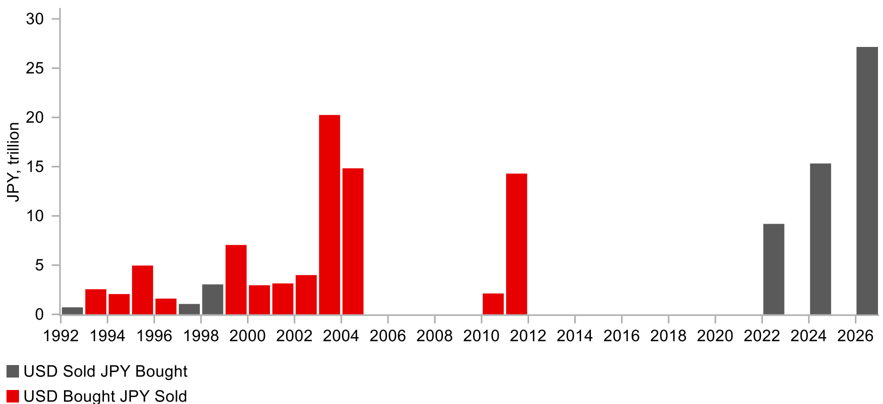
USD/JPY VS US-JP 2YR



Source: Bloomberg, Macrobond & MUFG GMR

Record monthly intervention highlights efforts to strengthen the yen

JAPAN FX INTERVENTION



Source: Bloomberg, Macrobond & MUFG GMR

Euro

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/USD	1.1598	1.1500	1.1800	1.2000	1.2000
EUR/JPY	185.60	181.70	184.10	184.80	182.40
		Consensus	Consensus	Consensus	Consensus
EUR/USD		1.1600	1.1600	1.1700	1.1800
EUR/JPY		184.00	183.00	183.00	182.00

MARKET UPDATE

EUR advances further

In August the euro advanced further against the US dollar in terms of London closing rates from 1.1509 to 1.1598. The ECB did not meet in August and hence the deposit rate was unchanged at 2.25% - following the first hike since September 2023 in June. Balance sheet reduction continues with the ECB's projected maturities from both APP and PEPP expected to result in a EUR 500bn decline in balance sheet holdings in 2026.

OUTLOOK

EUR resilience but upside scope remains limited for now

The US dollar was generally weaker again in August and EUR/USD gained further on the back of renewed focus on US dollar debasement fears. The euro as the most liquid alternative to the dollar benefits by default. However, the euro was the fourth best performing G10 currency in August and advanced on a trade-weighted basis as well, by 0.7%. The ECB's EUR EER reached the highest level since May. What became more apparent in August was the improvement in sentiment despite the continued risks related to the Middle East and energy prices. The German IFO Business Climate Index jumped more than expected (86.7 to 88.8) – the index has more than fully retraced the drop after the conflict began and reached a level not seen since August last year. Natural gas prices need monitoring given the risk of gains hitting growth and confidence but more tanker traffic through the Strait of Hormuz is helping contain prices for now. However, TTF natural gas gained 20% in August after a 33% gain in July. German grid operators stated in August that the winter gas storage target was "virtually unattainable". Storage as of 24th August was 63% of capacity vs a 5yr average of 81%. The improvement in the economic outlook while inflation risks persist was enough for ECB Executive Board member Schnabel to state that "further tightening will be necessary". The OIS market is now nearly fully priced for a September hike and 80% priced for two 25bp hikes by year-end. We expect one but increasingly see the risk of the ECB delivering another.

Political risks unlikely to be a big driver of EUR direction

Political uncertainty in Europe will remain elevated over the coming year, notably ahead of German state elections in September and the French presidential election in April 2027. While strong performances by anti-establishment parties could generate bouts of volatility and renewed scrutiny of fiscal policy, recent experience suggests that lasting FX effects require a meaningful change in the policy outlook. For now, we see limited evidence that upcoming elections will materially alter the euro area's macro outlook. The AfD could win strongly in the Saxony-Anhalt state election on 6th September, which would further undermine the Merz government.

EUR levels revised lower over coming quarters

Consequently, while political developments warrant close monitoring, we continue to believe that EUR direction will be determined primarily by relative growth and interest rate expectations rather than electoral outcomes. Recent signs of economic resilience and the continued willingness of the ECB to respond to upside inflation risks will continue to provide support for EUR/USD.

	Interest Rate Close	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Policy Rate	2.25%	2.50%	2.50%	2.50%	2.50%
3-Month Bill	2.50%	2.60%	2.55%	2.50%	2.50%
10-Year Yield	3.32%	3.30%	3.20%	3.10%	3.00%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

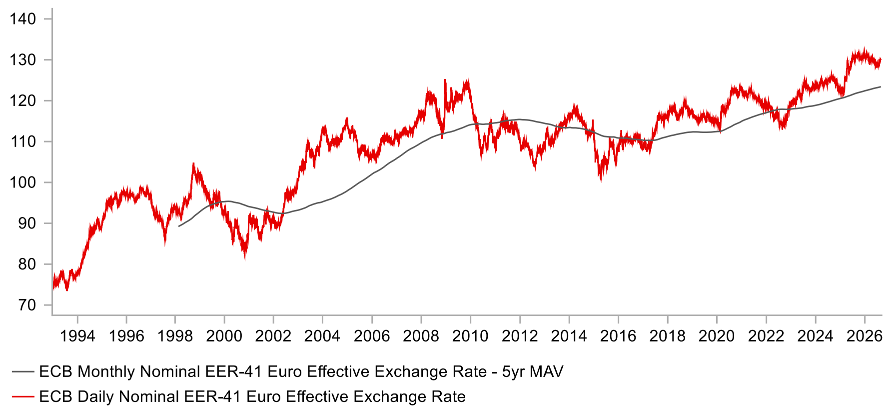
INTEREST RATE OUTLOOK

Bund yields remained supported by economic resilience and inflation risks

The 10-year German bund yield jumped again in August but by a more modest 11bps to close at 3.32%. The backdrop in the euro-zone remains supportive for yields with some of the key sentiment data highlighting resilient corporate sentiment in the face of elevated uncertainties. Companies initially fearful of a repeat of the energy price shock in 2022-23 now see more moderate energy price moves. That said, while crude oil prices are contained there have been notable increases in natural gas prices (over 70% from late June through Aug) and that move will likely keep the ECB concerned over upside inflation risks. We have maintained our view that the ECB will hike in September and then be in a position to pause. The obvious risk here is that the ECB needs to hike further. Executive Board member Schnabel, in Jakson Hole, was clear in her message of upside inflation risks. However, our core view remains that the Middle East conflict will not result in a problematic further jump in energy prices. A deal is done or enough tanker traffic gets through the Strait of Hormuz to lower energy prices. Hence at these levels of yield we see greater scope for some moderate retracement lower.

EUR appreciation was broad-based

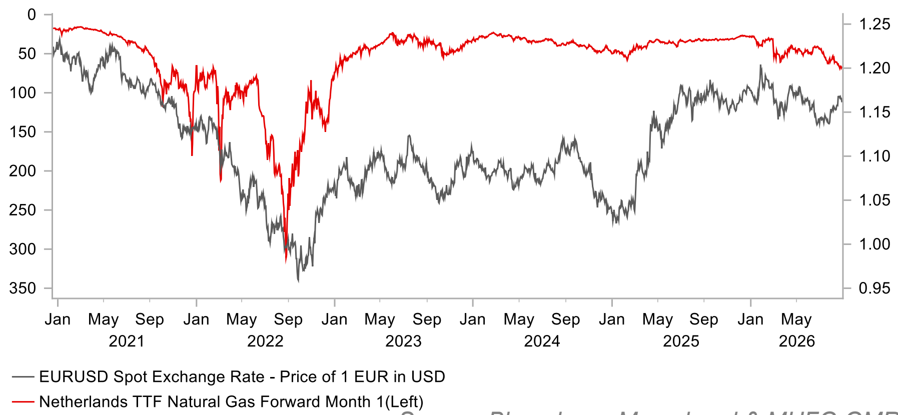
ECB DAILY NOMINAL EER



Source: Bloomberg, Macrobond & MUFG GMR

Euro resilient despite rise in natural gas prices

EUR/USD VS. TTF NATURAL GAS



Source: Bloomberg, Macrobond & MUFG GMR

Pound sterling

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/GBP	0.8556	0.8550	0.8650	0.8700	0.8750
GBP/USD	1.3556	1.3450	1.3640	1.3790	1.3710
GBP/JPY	216.94	212.50	212.80	212.40	208.50
		Consensus	Consensus	Consensus	Consensus
GBP/USD		1.3400	1.3400	1.3500	1.3500

MARKET UPDATE

GBP advances vs USD

In August the pound strengthened versus the dollar in terms of London closing rates, moving from 1.3465 to 1.3556. However, the pound weakened marginally against the euro from 0.8547 to 0.8556. The MPC did not meet in August and hence the key policy rate was unchanged at 3.75%, after six 25bp cuts since August 2024.

OUTLOOK

GBP modestly stronger again as macro resilience strengthens case for higher for longer

The pound strengthened versus US dollar and the euro, and the BoE TWI gained an additional 0.5% after a 0.8% gain in July. The pound remains the second best performing G10 currency since the Middle East conflict began at the end of February. The UK economy continues to hold up better than expected and this economic resilience is not feeding into higher domestically generated inflation concerns at this juncture. Real GDP in Q2 expanded by 0.4% Q/Q following a 0.6% expansion in Q1 – the strongest performance since the first half of 2024. Momentum going into Q3 was also solid with the MoM increase in June a strong 0.3%. That gain was driven by a 0.4% gain in services. Services looks to have remained resilient in Q3 with the PMI services index in August increasing to 52.8, the strongest level since February.

BoE to remain on hold

The resilience is not translating to increased investor concerns over inflation. YoY CPI in July increased as expected due to the OFGEM utility bill price cap but there were no underlying upside surprises and the evidence of domestically generated inflationary pressures remain sparse. OFGEM confirmed a 4% further increase effective October, which was very close to the BoE estimate assumed in its inflation projections published in July. PAYE employment fell 13k in July and underlying private sector wage growth (3mth YoY) slowed to 2.8% in June – excluding the covid period, that increase was the weakest since June 2018 and the 16th consecutive month of slowing annual growth. That is compelling reason to hold off hiking if the external inflation risks subside. The external risks remain of course but crude oil prices gained only 0.4% in August indicating scope for the BoE to stay on hold. The BoE remaining on hold this year will likely see a notable decline in front-end yields.

Falling yields and rising political risks a bad mix for GBP

The 12mth OIS implied 70bps of tightening and would leave the UK with the highest official policy rate in G10. We suspect this pricing is excessive and will adjust lower as domestically generated inflation remains subdued and energy risks subside. PM Burnham's honeymoon period looks to be coming to an end and the fiscal constraints on adopting any meaningful policy initiatives to support economic growth could raise fears of steps that lack fiscal credibility.

GBP break from yield spreads unlikely to last

The pound continues to outperform relative yield changes and based on EZ-UK 2yr spreads, EUR/GBP should be trading between 0.8800-0.8900. Better economic growth and weaker inflation has helped improve investor confidence. Still, with GBP/USD already at our 12mth forecast (1.3640) we have adjusted our GBP forecasts slightly stronger but still assume some correction weaker initially.

	Interest Rate Close	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Policy Rate	3.75%	3.75%	3.75%	3.50%	3.50%
3-Month Bill	3.91%	3.85%	3.75%	3.40%	3.40%
10-Year Yield	5.06%	5.10%	4.90%	4.70%	4.60%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

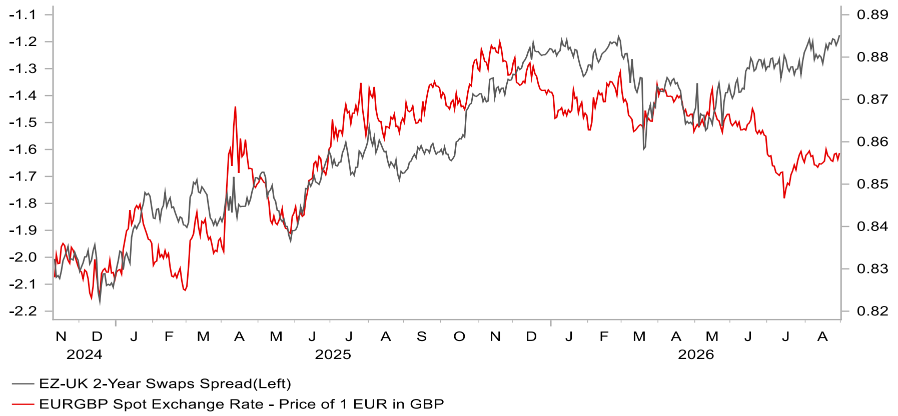
INTEREST RATE OUTLOOK

BoE continues to have capacity to remain on hold – longer-term yields dictated in part by the US

The 10-year Gilt yield declined modestly in August, by 1bps to close at 5.06%. Since the surge in long-term yields after the start of the Middle East conflict, the 10-year Gilt yield has traded most of the time between 4.80%-5.20% reflecting, in part anyway, the increased inflation risks. The 5y5y inflation swap and the 10-year breakeven rate show strong correlations with crude oil prices. We assume a resolution is found that helps keep energy prices in check and ultimately allow for oil and natural gas prices to retrace. That will be key for lower 10-year Gilt yields. The data of late is certainly reinforcing the prospects of lower risks of domestically generated inflation that will ultimately open up scope for the BoE to ease the monetary stance in Q1 2027. With private sector wage growth at its weakest since June 2018, the inflation outlook is improving. The period 2018-19 saw headline inflation average 2.2%. We also see UST bond yields declining in the US as well which will be a key driver of direction for Gilt yields. An escalation of the conflict and jump in inflation is an obvious risk to our view

GBP has diverged away from yield spreads

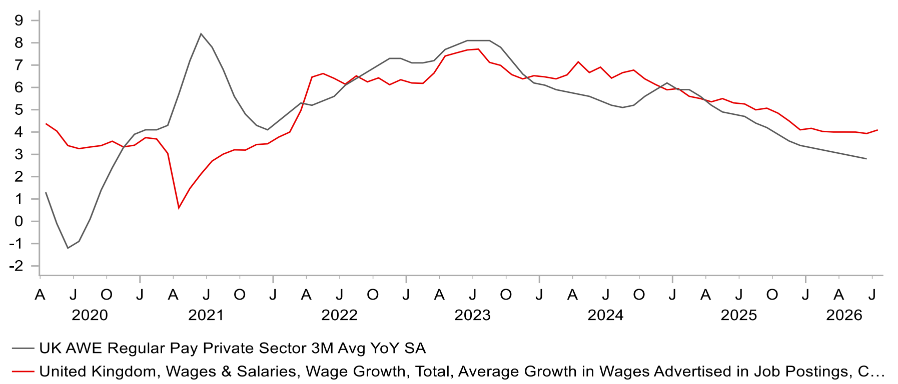
EZ-UK 2YR SWAPS VS. EUR/GBP



Source: Bloomberg, Macrobond & MUFG GMR

Wage growth has slowed, reducing the need for tightening

UK PRIVATE SECTOR PAY YOY, % VS. UK INDEED WAGE YOY, %



Source: Bloomberg, Macrobond & MUFG GMR

Chinese renminbi

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/CNY	6.7272	6.7000	6.6500	6.6000	6.6000
USD/HKD	7.8403	7.8300	7.8300	7.8300	7.8300
		Consensus	Consensus	Consensus	Consensus
USD/CNY		6.7500	6.7000	6.6500	6.6300
USD/HKD		7.8300	7.8200	7.8200	7.8200

MARKET UPDATE

CNY strengthened modestly on the back of weaker US dollar

In August, USD/CNY fell from 6.7524 to 6.7272. On 20th August, the PBoC kept the 1Y and 5Y LPR steady at 3.00% and 3.50% respectively. The Q2 PBoC Monetary Policy Implementation Report released in mid-August provided little new policy guidance, largely echoing the July Politburo meeting's call to "comprehensively utilize and timely adjust monetary policy tools" without further details.

OUTLOOK

Government officials signalled readiness to stem the weakening growth momentum, and further weakness in August data likely will bring forward the timing of incremental policy support

The Chinese economy continued to lose some steam in its growth momentum in July following a below-target Q2 GDP growth, as the strength in exports/high-tech industries and somewhat accelerated government bond issuance failed to offset the broader weakness in domestic demand. Nearly all major activity indicators for July including IP surprised to the downside although extreme weather was partly to blame. The softer print in core CPI inflation since May is also concerning. Overall, the “K-shape” dynamics are likely to persist through the rest of this year, though we expect a faster pace of government bond issuance to boost infrastructure investment particularly in “six networks” related projects to stabilize growth. Remaining 44% of annual bond quota or RMB 6.1tn of funds are to be deployed for August-December period. While the main policy focus remains on expediting the rollout of existing policy measures, the authorities have signaled their willingness to step up the support if needed. The MoF announced the plan to unveil additional fiscal-financial coordination policy measures in 2H and will consider incremental policy measures depending on economic condition. At the same time, they also introduced optimization of the fiscal-financial coordination policy to support domestic demand, benefiting both small private businesses and consumers through broader scope of loan/ credit card installments subsidy eligibility and higher subsidy caps.

Domestic growth headwind to remain a drag on CNY, limiting the pace of CNY appreciation despite strong external balance and a potential weaker dollar profile

The weakness in the July macro data did not deter CNY from further appreciating albeit modestly in August, helped by the weaker dollar backdrop and strong exports/ trade balance. That said, CSI 300 performance was rather range bound as tech sentiment recovery was offset by weaker prospect of China’s economy. As such, a solid domestic demand/ earnings recovery will be helpful to further attract foreign equity inflow in addition to the structural theme around China’s AI tech. While China suffered some foreign equity outflow in June-July period (net USD 18bn) given the global tech volatility, the IIF data showed a total USD 37bn net foreign inflow into China’s equity during first 7-months this year (whereas the rest of EM Asia on aggregate suffered net outflow). The CNY could strengthen modestly in September as China's trade surplus remains sizeable and export performance continues to provide a steady source of FX inflows. In addition, any moderation in US dollar strength or Treasury yields would help narrow external pressures on the renminbi, allowing for gradual appreciation while policymakers maintain overall currency stability.

	Interest Rate Close	Q3 2026	Q4 2026	Q1 2027	Q2 2027
LPR 1Y	3.00%	3.00%	3.00%	3.00%	3.00%
7-Day Reverse Repo Rate	1.40%	1.40%	1.40%	1.40%	1.40%
10-Year Yield	1.70%	1.75%	1.80%	1.85%	1.85%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

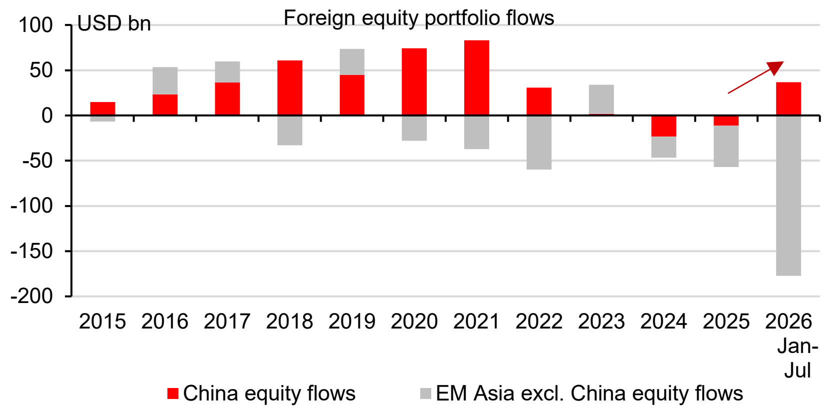
INTEREST RATE OUTLOOK

Easing on structural monetary policy tools could be the potential next step for PBoC

In August, the 10-year CGB yield fell below 1.70%, briefly touching 1.67%, driven by a liquidity boost from the PBOC's first-ever mid-month overnight reverse repo operation. Looking ahead, with the Ministry of Finance preparing additional fiscal-financial coordination measures, the PBOC could further strengthen policy support through structural tools such as relending rate cuts and expanded relending quotas to support strategic sectors. Previous policy measures lowered funding costs for both corporates and banks in priority sectors including technology, manufacturing and services. The key question now is whether policymakers will introduce more direct support for household consumption, which remains the economy's weakest link. For now, we continue to expect no cut to the policy rate. In rest of the year, government bond issuance is likely to accelerate, which, together with a modest stabilisation in domestic demand and improving business confidence, should put gradual upward pressure on 10-year CGB yields from current depressed levels. However, subdued household loan growth and ample system liquidity are likely to sustain banks' demand for government bonds, limiting the extent of any yield increase.

Strong China's AI tech theme could partly explain the turnaround in foreign sentiment

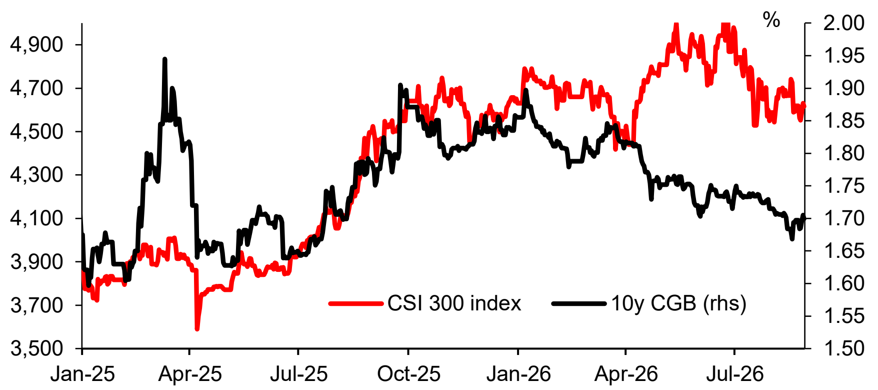
FOREIGN SENTIMENT TOWARDS CHINESE EQUITY HAS TURNED POSITIVE



Source: IIF, MUFG GMR

Growth concerns have pushed the 10y CGB yield lower recently

10Y CGB YIELD MOVING LOWER ALONGSIDE CSI 300 SINCE JULY THIS YEAR



Source: Bloomberg, MUFG GMR

Australian dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
AUD/USD	0.7166	0.7100	0.7200	0.7300	0.7400
AUD/JPY	114.677	112.180	112.320	112.420	112.480
EUR/AUD	1.6185	1.6200	1.6390	1.6440	1.6220
		Consensus	Consensus	Consensus	Consensus
AUD/USD		0.7100	0.7100	0.7200	0.7300

MARKET UPDATE

AUD strengthens further

In August the Australian dollar strengthened further against the US dollar in terms of London closing rates from 0.7022 to 0.7166. The RBA at its meeting in August left the key policy rate unchanged at 4.35%, the second unchanged decision after three consecutive 25bp rate hikes earlier in the year.

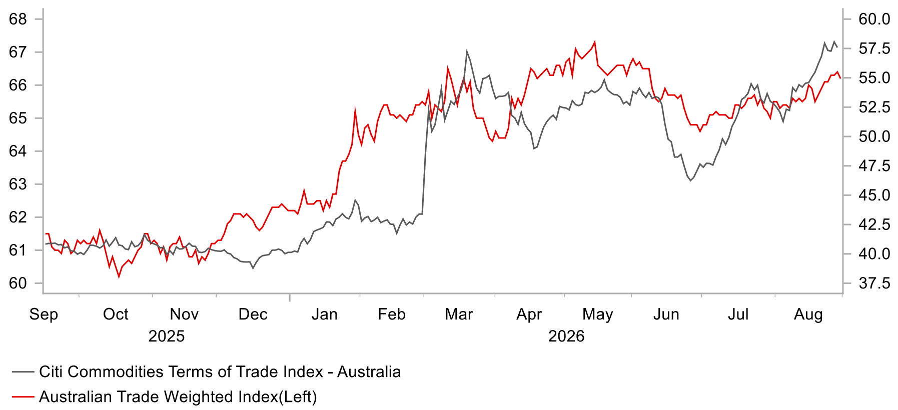
OUTLOOK

AUD support but upside scope more limited

The Australian dollar advanced in August and was the top performing G10 currency as favourable carry conditions continued to drive demand. The AUD/USD move was larger than implied by relative macro and there is a risk of the move higher being contained. The 2-year AU-US swap spread was more stable. However, AUD could well be supported at these more elevated levels by the fact that the RBA OIS pricing appears to us underpriced. A full rate hike is now priced by mid-2027 but the minutes from the August RBA meeting suggests the risk of more are higher. “Several members” judged that it was “quite possible” that inflation risks would be realised and require further monetary tightening. A pre-emptive rate hike was considered at the meeting given these views. That would have been a considerable surprise given pricing the day before the meeting on 11th August indicated zero probability of a rate hike. It suggests there has been a tendency of markets to underprice RBA rate hike risks. Australia’s terms of trade have been favourable with natural gas prices in Europe jumping to new highs as the Strait of Hormuz remains under some form of blockade. Australia is the second largest exporter of LNG after the US. However, downside risks for AUD/USD could quickly emerge. The Fed raising rates in September is possible and not fully priced while a further downturn in the Chinese economy or a breakdown in US-China relations would hit sentiment. Hence, we assume more modest AUD/USD gains ahead.

Strong commodity export income continues to underpin broad AUD strength

AUD TWI VS. AUSTRALIA'S TERMS OF TRADE



Source: Bloomberg, Macrobond & MUFG GMR

New Zealand dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
NZD/USD	0.5913	0.5800	0.5900	0.6000	0.6100
NZD/JPY	94.626	91.640	92.040	92.400	92.720
AUD/NZD	1.2119	1.2240	1.2200	1.2170	1.2130
		Consensus	Consensus	Consensus	Consensus
NZD/USD		0.5900	0.6000	0.6000	0.6100

MARKET UPDATE

NZD advances further vs USD

In August the New Zealand dollar strengthened further against the US dollar in terms of London closing rates, moving from 0.5876 to 0.5913. However, the New Zealand dollar weakened modestly against the Australian dollar, from 1.1950 to 1.2119. The RBNZ did not meet in August. Hence the key policy rate was unchanged at 2.50%.

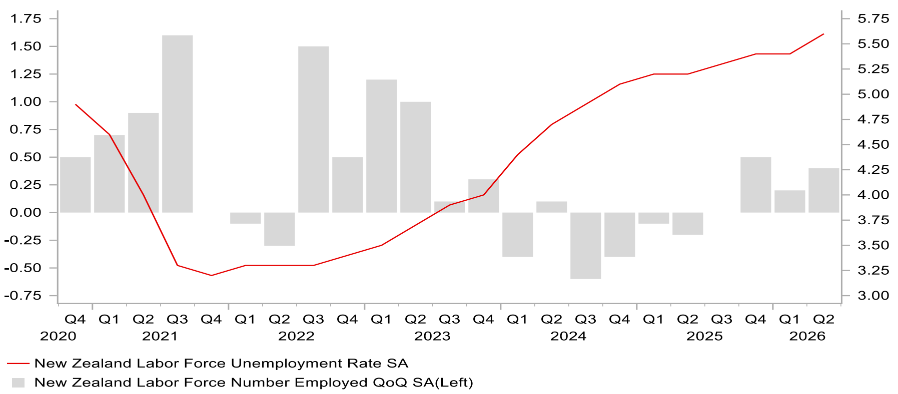
OUTLOOK

NZD to advance but caution warranted short-term

The New Zealand dollar advanced further in August and was the fifth best performing G10 currency as the US dollar weakened more broadly, in part on the re-emergence of the USD debasement theme following the US bond buyback announcement by the US Treasury. It appears more a US dollar move given the New Zealand dollar weakened versus the Australian dollar. The economy continues to pick up from the period of downturn following aggressive RBNZ tightening although the path is bumpy – the economy could have contracted in Q2 (-0.2% Q/Q estimated) but on a calendar year basis real GDP growth of 1.9% is expected this year (-0.3% in 2024 + +0.2% in 2025). However, there remains evidence of ample spare capacity based on the labour market data – employment gained by 0.5% Q/Q in Q2, but the unemployment rate jumped from 5.4% to 5.6% suggesting there is scope for further non-inflationary growth. In that context market pricing on RBNZ action over the next 12mths could prove excessive with nearly 100bps of rate hikes priced. Like elsewhere, external risks to inflation from energy could determine near-term action and a hike in September is now nearly fully priced. We had assumed a hold and then a rate hike in Q4 but now if energy prices remain more elevated, we may well get the RBNZ moving the policy rate twice this year to 3.00%. We would still question the scope for further tightening in 2027. However, a Fed rate hike could prompt some correction lower especially with NZD/USD looking somewhat over-extended.

Pick-up in employment growth but unemployment rate has not yet peaked

NZ PRIVATE EMPLOYMENT QOQ VS. NZ UNEMPLOYMENT RATE



Source: Bloomberg, Macrobond & MUFG GMR

Canadian dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/CAD	1.3897	1.4100	1.3900	1.3800	1.3600
CAD/JPY	115.15	112.10	112.20	111.60	111.80
EUR/CAD	1.6118	1.6220	1.6400	1.6560	1.6320
		Consensus	Consensus	Consensus	Consensus
USD/CAD		1.4000	1.3900	1.3800	1.3700

MARKET UPDATE

CAD advances further

In August the Canadian dollar advanced further against the US dollar in terms of London closing rates from 1.4026 to 1.3897. The Bank of Canada did not meet in August and hence the key policy rate was unchanged at 2.25%. The easing cycle may have now ended – a cycle that involved total easing of 275bps.

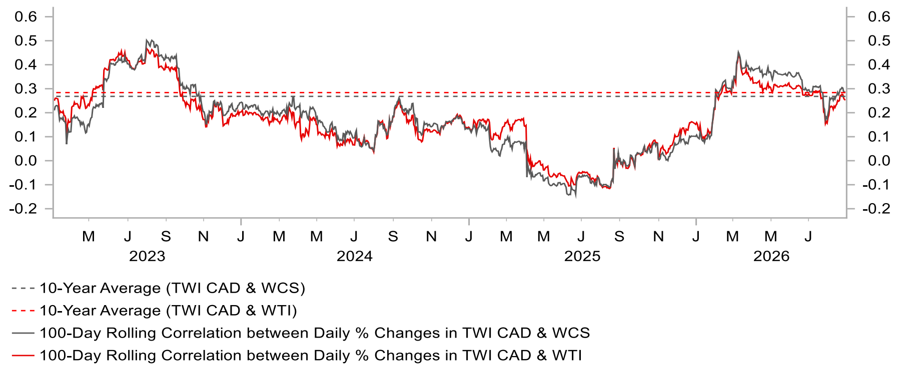
OUTLOOK

Fed risk, trade negotiation outlook uncertainties & oil retracement possible headwinds ahead

The Canadian dollar advanced further in August but the strong performance ebbed toward the end of the month following the breakdown of trade negotiations with the US. Ahead of the breakdown, CAD had advanced notably on optimism of a deal and hence risks remain skewed to further CAD underperformance ahead if there is no clear path to a resolution over the coming weeks. A 50% tariff on USD 20bn worth of US imports from Canada has gone live and Canada has retaliated with PM Carney promising a "dollar for dollar" response. The limited FX fallout reflects the relatively small portion of Canadian goods impacted but the US has promised further action after Canada's retaliation – President Trump confirmed a doubling of auto & light truck tariffs to 50% but the action will only be effective 1st Jan 2027 – providing time for further negotiations. Investors generally do not believe this spat will result in a notable upturn in tariffs. While the US is in a stronger position, a breakdown in trade would have an impact on the US as well. Aside from this key uncertainty, the direction of crude oil and monetary policy will be key. The Bank of Canada has scope to be patient on raising rates given the relatively muted inflation backdrop. A full rate hike is not priced until March next year. We assume the Fed can avoid rate hikes and that a resolution to the current trade conflict is reached – in that context, USD/CAD should remain in current ranges and given the broader view of a weaker US dollar we see some modest scope for USD/CAD to decline further.

CAD sensitivity to oil price has risen in recent periods

ROLLING CORRELATION: CAD TWI VS. WTI & WCS



Source: Bloomberg, Macrobond & MUFG GMR

Norwegian krone

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/NOK	10.878	10.900	11.000	11.100	11.100
USD/NOK	9.3791	9.4780	9.3220	9.2500	9.2500
NOK/JPY	17.062	16.670	16.730	16.650	16.430
		Consensus	Consensus	Consensus	Consensus
EUR/NOK		10.940	11.000	10.900	10.900

MARKET UPDATE

NOK strengthens further

In August the krone strengthened further against the euro in terms of London closing rates from 10.915 to 10.878. The Norges Bank maintained the policy rate at 4.25%.

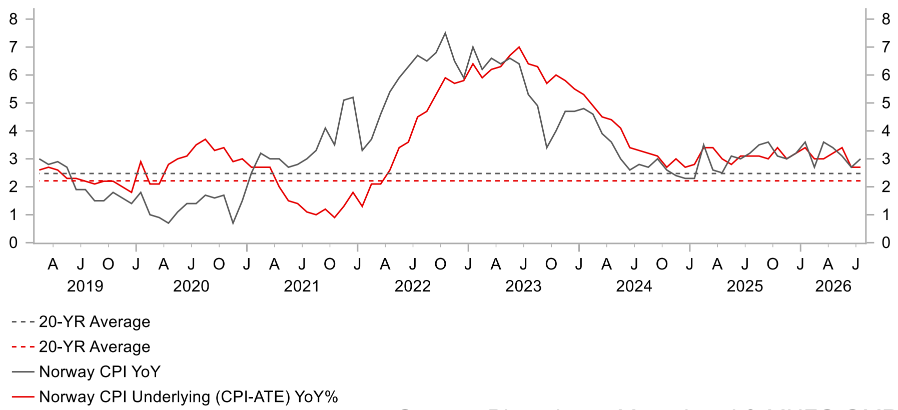
OUTLOOK

Higher energy prices & moderate Norges bank action to help NOK

The krone advanced against both the euro and US dollar in August with the performance the second best across G10. As is often the case, the rebound in crude oil prices in August helped provide support and hence there is always a risk to the downside on the potential for de-escalation in the Middle East that puts further downward pressure on energy prices. Our assumption is just that and hence we do incorporate a period of renewed underperformance. Even if tensions remains higher than anticipated, there are increasing reports suggesting increased tanker traffic and if accurate appears ample enough to keep crude oil prices in check. However, natural gas prices are surging in Europe and that may well remain a positive NOK factor heading into the winter. NOK should also benefit from a monetary policy standpoint. The Norges bank has been cautious in easing its policy stance, cutting just twice and has already hiked. A hike in September was fully priced at the end of July, but the probability has now dropped to about 64%. The prospect of a hike in September was helped by the GDP data with mainland GDP expanding by 0.3% Q/Q with spillover effects from energy exports likely helping. The stronger expectations of a Fed hike also strengthens expectations of Norges bank moving as well. While Norges bank kept rates on hold in August there was a reluctance to read too much into two months of weaker core CPI data. The CPI data on 10th September will be important ahead of Norges banks' meeting on 24th September. It is a close call, but we see a rate hike in September, providing support for the krone into year-end.

Policymakers remain cautious despite moderation in inflation

NORWAY CPI YOY, %



Source: Bloomberg, Macrobond & MUFG GMR

Swedish krona

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/SEK	11.128	11.200	11.300	11.100	10.900
USD/SEK	9.5944	9.7390	9.5760	9.2500	9.0830
SEK/JPY	16.680	16.220	16.290	16.650	16.730
		Consensus	Consensus	Consensus	Consensus
EUR/SEK		11.000	10.800	10.700	10.700

MARKET UPDATE

SEK at year-to-date lows

In August the krona weakened against the euro in terms of London closing rates from 11.069 to 11.128. The Riksbank held the repo rate at 1.75%.

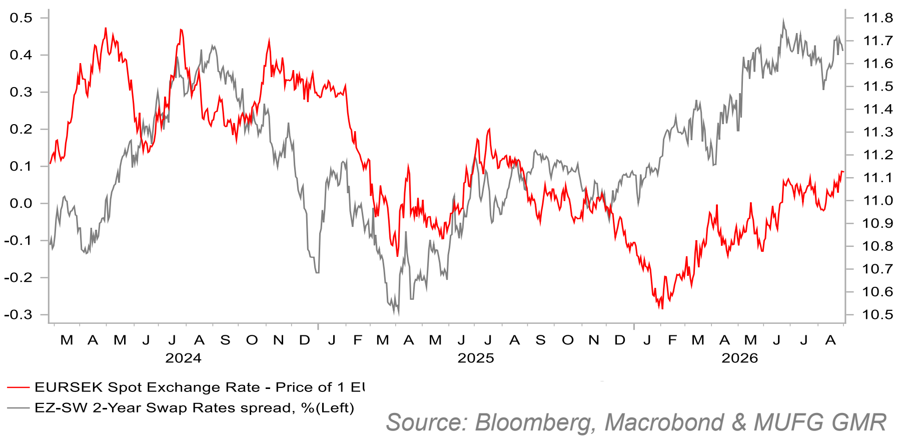
OUTLOOK

Energy price shock & Riksbank caution is weighing on krona

The krona was one of the worst performing G10 currencies in August, alongside the other low-yielding currencies of the Swiss franc and the yen. The krona has been undermined by the rebound in energy prices, reflecting the lack of progress in resolving the US-Iran conflict. As a result, natural gas prices in Europe have risen to their highest levels since the conflict began in February. These adverse energy developments have increased downside risks to growth in Europe, weighing on the krona. Sweden is a small, open economy, making the currency particularly sensitive to a weakening outlook for external demand. Despite these downside risks, Sweden's economy performed strongly in Q2. Economic activity rebounded sharply, expanding by 1.6% after a marginal contraction of 0.1% in Q1. The details of the report showed that the acceleration in growth was broad-based. Household consumption contributed 0.5 percentage points to growth, while both investment and exports added a further 0.5 percentage points each. At its latest policy meeting, the Riksbank acknowledged that growth had been stronger than it had forecast in June, although this was partly offset by somewhat weaker developments in the labour market. This is one reason why the Riksbank remains cautious about tightening monetary policy. The Riksbank's cautious stance has contributed to krona weakness, while both the ECB and Norges Bank have already begun raising rates. Inflation remains well below the Riksbank's target, largely reflecting temporary fiscal policy measures. The Riksbank has signalled that it would be prepared to raise interest rates if the higher inflation recorded over the summer proves to be more persistent.

Rate differentials have moved against the krona

EZ-SW 2YR SWAP RATES



Source: Bloomberg, Macrobond & MUFG GMR

Swiss franc

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/CHF	0.9378	0.9350	0.9300	0.9200	0.9150
USD/CHF	0.8086	0.8130	0.7880	0.7670	0.7630
CHF/JPY	197.91	194.30	197.90	200.90	199.30
		Consensus	Consensus	Consensus	Consensus
EUR/CHF		0.9300	0.9300	0.9300	0.9400

MARKET UPDATE

CHF weakens further

In August the Swiss franc weakened further versus the euro in terms of London closing rates, moving from 0.9307 to 0.9378. The SNB did not meet in August and hence the policy remained unchanged at 0.00%, after cumulative easing of 175bps.

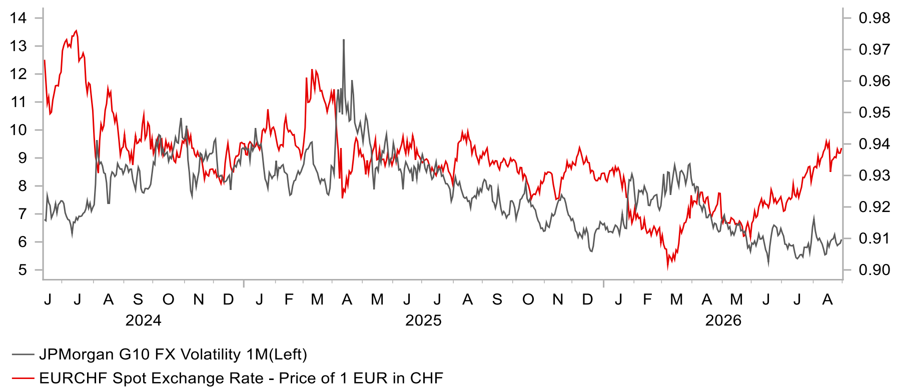
OUTLOOK

CHF is unlikely to trend weaker

The Swiss franc weakened further against the euro in August despite a brief surge mid-month when the US Treasury bond buyback announcement fuelled a sharp recovery as USD debasement fears that prompted Swiss franc strength. What is notable about CHF performance has been the renewed co-movement of the 2-year rate spread and EUR/CHF. ECB monetary tightening priced by next June (73bps) is far more than the 26bps of tightening expected by the SNB and now this widening spread is playing a more important role in undermining the franc. Can this renewed correlation between rate spreads and EUR/CHF be sustained? It may well be, but we do not expect the spread to continue being supportive as we do not expect further ECB tightening after September. Our view is based on energy prices being contained and inflation risks globally receding. Under such a scenario global yields relative to Switzerland should narrow back and provide renewed support for the franc. If we are wrong on the Middle East assumption and the situation escalates and energy prices move higher and numerous G10 central banks hike, risk assets could well start to suffer, volatility will likely spike higher and in those circumstances, some recovery of the franc would also be likely. As highlighted last month, FX vol is incredibly low and those conditions could easily be disrupted. The bias of risks over the coming months is a spike back higher in FX vol and that leaves us cautious to forecast a sustained period of franc depreciation. But the assumption of a decline in global yields is our core view that should help prompt renewed franc strength.

Low volatility reduces demand for safe-haven FX

EUR/CHF VS G10 FX VOLATILITY INDEX



Source: Bloomberg, Macrobond & MUFG GMR

Czech koruna

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/CZK	24.130	24.100	23.900	23.800	23.700
USD/CZK	20.805	20.960	20.250	19.830	19.750
CZK/JPY	7.6918	7.5390	7.7020	7.7650	7.6960
		Consensus	Consensus	Consensus	Consensus
EUR/CZK		24.200	24.200	24.100	24.000

MARKET UPDATE

Marginally stronger

In August the Czech koruna strengthened marginally against the euro in terms of London closing rates from 24.201 to 24.130. The Czech National Bank (CNB) held the two-week repurchase at 3.75%.

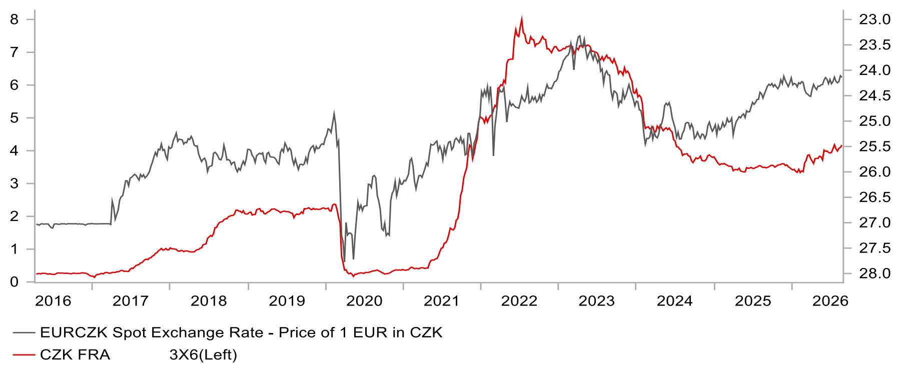
OUTLOOK

CNB caution over further hikes helps to dampen CZK strength

The koruna has regained upward momentum against the euro in August, resulting in EUR/CZK falling to a fresh year-to-date low of 24.065. The koruna has been supported by growing expectations of further CNB rate hikes. Those expectations have been reinforced by rising energy prices in Europe. Natural gas prices have climbed to their highest level over the summer since the US-Iran conflict began. A similar hawkish repricing has also taken place in eurozone rate markets, where the ECB is expected to deliver a further two to three rate hikes over the coming year. While the Czech rates market is also anticipating additional policy tightening following the CNB's first rate hike in June, recent rhetoric from the central bank has remained cautious. After holdng rates in August, Governor Michl emphasised that the CNB's current policy stance is sufficient to keep inflation under control and that the rate increase delivered in June provided the desired degree of monetary tightening. While the door was left open to further tightening, the CNB's updated forecasts pointed to broadly stable interest rates. The latest staff projections from the CNB expect headline inflation to rise gradually towards 3.0% later this year and into early next year, up from 1.7% in July. Leaving rates unchanged could also expose the CNB to criticism that it is yielding to political pressure, following criticism from Prime Minister Andrej Babiš. Governor Michl has repeatedly stressed that the CNB will continue to conduct monetary policy independently. If the CNB fails to respond to rising inflationary pressures, it could gradually undermine confidence in the koruna.

Positive real yields continue to support koruna

EUR/CZK VS. CNB POLICY EXPECTATION



Source: Bloomberg, Macrobond & MUFG GMR

Hungarian forint

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/HUF	365.14	365.00	365.00	360.00	355.00
USD/HUF	314.83	317.40	309.30	300.00	295.80
HUF/JPY	0.5083	0.4980	0.5040	0.5130	0.5140
		Consensus	Consensus	Consensus	Consensus
EUR/HUF		358.50	355.00	352.00	351.00

MARKET UPDATE

Marginally weaker

In August the Hungarian forint weakened marginally against the euro in terms of London closing rates moving from 364.31 to 365.14. The National Bank of Hungary (NBH) lowered the base rate by 0.25 point at 5.50%.

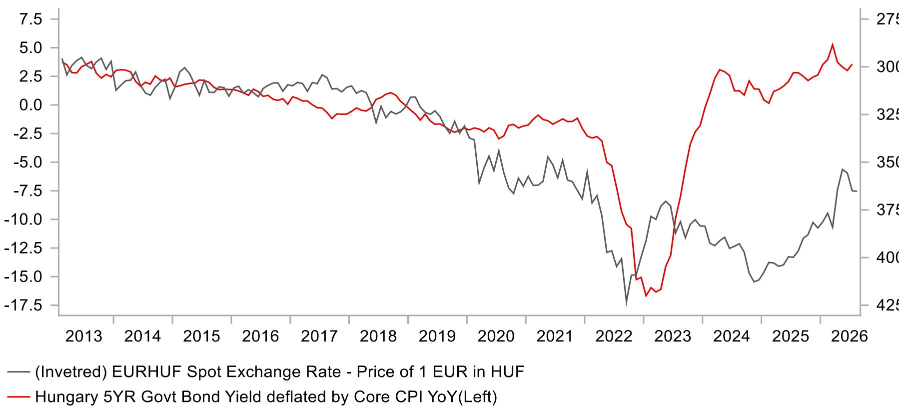
OUTLOOK

NBH rate cuts are putting a dampener on forint strength

The forint has continued to correct lower in August. After failing to break below support at 350.00 in June, EUR/HUF has surrendered some of the strong gains recorded following the Hungarian parliamentary election in April. The forint has been undermined in recent months by the NBH's decision to accelerate the pace of rate cuts. The central bank has lowered rates by 75bps at each of the last three policy meetings. The sharp reduction in the risk premium attached to Hungarian assets following the positive political regime change, together with the strong appreciation of the forint, has encouraged the NBH to continue easing policy despite the energy price shock. At the same time, the ECB has been delivering measured policy tightening, with another rate hike likely in September. As a result, yield spreads between Hungary and the euro area have narrowed sharply, reducing the forint's appeal as a carry currency. Slowing inflation in Hungary has created room for the NBH to continue lowering rates. The central bank cut rates in August after the latest CPI report revealed that headline inflation fell to a ten-year low of 1.2% in July. In contrast, services inflation picked up to 4.7%, helping to keep core inflation elevated at 1.9%. While narrowing yield differentials are acting as a headwind for further forint appreciation, the currency should continue to benefit from capital inflows driven by investor optimism surrounding structural economic reforms in Hungary. The European Commission has set out a series of reform "milestones" that Hungary must meet in order to regain access to approximately EUR16-18 billion of frozen EU funds.

Falling real yields have reduced carry advantage

EUR/HUF VS. 5YR GOVT YIELD DEFLATED BY CORE CPI



Source: Bloomberg, Macrobond & MUFG GMR

Polish zloty

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/PLN	4.3403	4.3200	4.3000	4.2800	4.2600
USD/PLN	3.7423	3.7570	3.6440	3.5670	3.5500
PLN/JPY	42.762	42.060	42.810	43.180	42.820
		Consensus	Consensus	Consensus	Consensus
EUR/PLN		4.3000	4.2900	4.2800	4.2600

MARKET UPDATE

Weaker

In August the Polish zloty weakened against the euro in terms of London closing rates from 4.3063 to 4.3403. The National Bank of Poland (NBP) held the seven-day reference rate 3.75%.

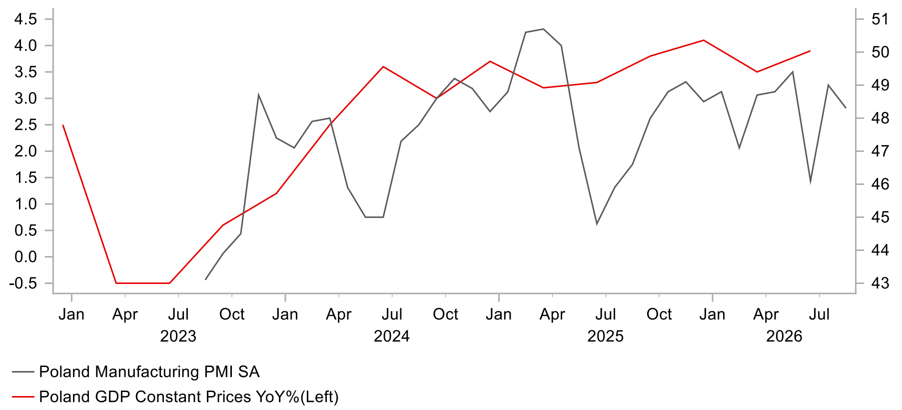
OUTLOOK

Dovish NBP guidance is weighing on zloty

The zloty has continued to trade at weaker levels in August following the sell-off in June and July. EUR/PLN has been trading between 4.3000 and 4.3500. The weaker zloty has been driven by the dovish repricing of NBP rate expectations since May. At its last policy meeting in July, NBP Governor Glapiński did not rule out the possibility that, if conditions remained broadly unchanged, the Monetary Policy Council (MPC) could consider a 25bp rate cut in September. He argued that Poland was not at risk of experiencing a significant rise in inflation similar to that seen during the energy crisis triggered by Russia's invasion of Ukraine in 2022. Although inflation is expected to increase in the coming quarters, it is projected to remain within the NBP's target range of 1.5% to 3.5%. Governor Glapiński's dovish comments surprised markets and opened the door to greater policy divergence with the ECB. Narrowing yield differentials between Poland and the eurozone have weighed on the zloty by reducing its relative yield advantage. However, inflation developments over the summer have reduced the scope for lower rates. Headline inflation picked up to 3.4% in August, while natural gas prices in Europe have climbed to fresh highs since the US-Iran conflict began. One positive for the zloty is that Poland's economy continues to expand at a solid pace despite the recent energy price shock. The NBP expects economic growth of 3.6% in 2026, broadly in line with last year's performance. Despite this strong growth outlook, Poland's fiscal position remains a concern, with the budget deficit still elevated at around 7% of GDP.

Strong economic growth

POLAND GDP YOY, % VS. POLAND MANUFACTURING PMI



Source: Bloomberg, Macrobond & MUFG GMR

Romanian leu

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
EUR/RON	5.2557	5.2700	5.3000	5.3300	5.3600
USD/RON	4.5316	4.5830	4.4920	4.4420	4.4670
RON/JPY	35.314	34.480	34.730	34.670	34.030
		Consensus	Consensus	Consensus	Consensus
EUR/RON		5.2500	5.2700	5.2900	5.3000

MARKET UPDATE

Marginally weaker

In August the Romanian leu weakened marginally against the euro in terms of London closing rates moving from 5.2363 to 5.2557. The NBR maintained the policy rate at 6.50%.

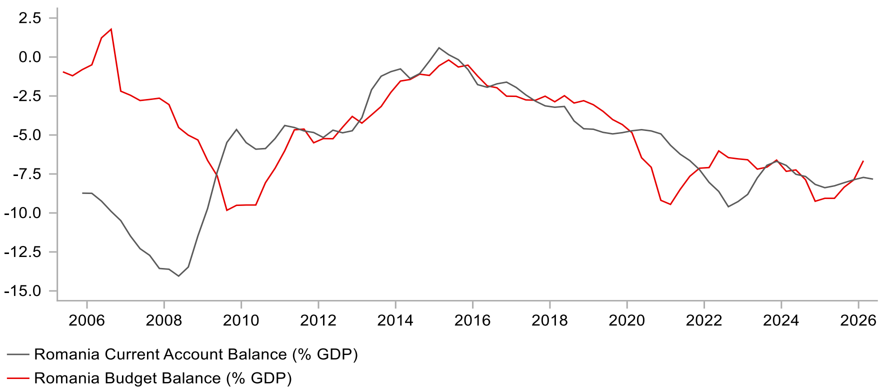
OUTLOOK

Domestic politics & fiscal concerns remain downside risks for leu

The leu weakened towards the end of August after the country's main political parties were unable to reach an agreement on the so-called Unified Wage Law, one of the key conditions for unlocking additional EU funding. Romania now risks losing around EUR 770 million in EU funds, raising fresh concerns about the authorities' willingness to reduce the budget deficit in the coming years. Furthermore, fiscal consolidation remains a crucial requirement for Romania to avoid a sovereign credit rating downgrade to junk status. All three major credit rating agencies currently assign Romania their lowest investment-grade rating with negative outlooks. A downgrade to junk status by Fitch was narrowly avoided in July after the government successfully appealed the agency's initial decision. Fitch emphasised that a failure to implement further fiscal consolidation measures could still trigger a downgrade. Romania has been governed by a caretaker administration without a parliamentary majority since the coalition government collapsed in May amid disagreements over the need for tighter fiscal policy. Romania's mainstream pro-European parties have yet to reach a compromise on the formation of a new government during talks with President Nicușor Dan. One option for breaking the political deadlock would be to hold early elections, although that could prove even more disruptive in the short term. The nationalist Alliance for the Union of Romanians (AUR) has benefited from growing public frustration with the political establishment. Fiscal sustainability and political stability concerns remain headwinds for the leu.

Persistent twin deficits continue to favour weaker leu

ROMANIA BUDGET BALANCE VS. CURRENT ACCOUNT BALANCE (% GDP)



Source: Bloomberg, Macrobond & MUFG GMR

Russian rouble

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/RUB	85.375	84.310	85.110	85.320	87.160
EUR/RUB	99.018	97.00	100.40	102.40	104.60
RUB/JPY	1.8744	1.8740	1.8330	1.8050	1.7440
		Consensus	Consensus	Consensus	Consensus
USD/RUB		79.010	78.650	79.780	81.370

MARKET UPDATE

Sharply weaker

In August the Russian rouble weakened sharply against the US dollar in terms of London closing rates from 77.854 to 85.375. The Central Bank of the Russian Federation (CBR) held the key policy rate at 14.00%.

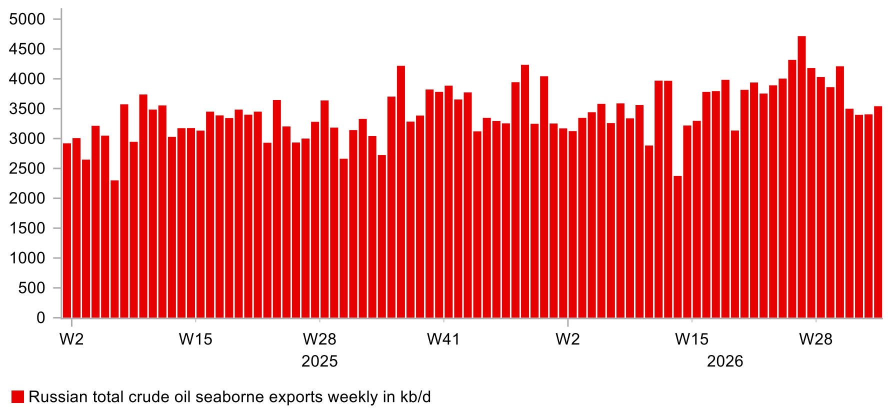
OUTLOOK

Higher energy prices are not sufficient to prevent weaker rouble

The rouble weakened sharply against the US dollar for the third consecutive month in August, pushing USD/RUB back within touching distance of its year-to-date high of 86.562 recorded on 19th March. The recent depreciation has occurred despite a rebound in oil prices, driven by the lack of progress in efforts to end the conflict between the US and Iran. Normally, a sustained increase in energy prices would provide support for the rouble by improving both government revenues and Russia's external position. However, Ukraine's ongoing attacks on Russia's downstream energy sector have significantly disrupted refining capacity. According to Bloomberg, Russian oil refining fell to its lowest level in more than two decades during the summer as attacks intensified. One key consequence has been shortages of gasoline and diesel within Russia, prompting restrictions on fuel sales in some regions. Ukraine has also expanded its attacks to target tankers, ports and export infrastructure around the Black Sea, placing additional pressure on Russia's seaborne crude exports. As a result, these disruptions have indirectly contributed to the rouble's recent weakness by reducing foreign currency inflows. At the same time, the authorities may have become more tolerant of a weaker rouble as it boosts export revenues when converted into local currency. The disruption has already prompted the CBR to lower its growth forecast for this year to a range of 0.0% to 1.0%. Governor Nabiullina has also warned that, if supply constraints persist for longer than expected, inflationary pressures could intensify.

Weaker export volumes have limited support for the RUB

RUSSIA TOTAL CRUDE OIL EXPORTS WEEKLY, KB/D



Source: Bloomberg, Macrobond & MUFG GMR

South African rand

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/ZAR	16.135	16.300	16.000	15.800	15.600
ZAR/JPY	9.9182	9.6930	9.7500	9.7470	9.7440
EUR/ZAR	18.713	18.750	18.880	18.960	18.720
		Consensus	Consensus	Consensus	Consensus
USD/ZAR		16.390	16.300	16.250	16.000

MARKET UPDATE

Stronger

In August the South African rand strengthened against the US dollar in terms of London closing rates from 16.395 to 16.135. The SARB held the key policy rate at 7.00%.

OUTLOOK

Favourable carry conditions & higher price of gold lift rand

The rand was one of the best performing emerging market currencies in August, resulting in USD/ZAR falling towards support at the 16.000-level. The rand has benefited from higher commodity prices, particularly precious metals. The price of gold rose by around 10% during August, supported by heightened investor uncertainty over the Fed's policy reaction function and a sell-off at the long end of the US Treasury market. These developments prompted Fed Chair Kevin Warsh to deliver a clearer signal that the Fed is prepared to raise interest rates if policymakers are not sufficiently confident that underlying inflation is moving towards target at an appropriate pace. His Jackson Hole speech has increased the likelihood of Fed hikes should core inflation fail to slow. The hawkish remarks are likely to dampen further upside for both gold and the rand in the near term, making it more difficult for USD/ZAR to sustain a break below the 16.000-level. At the same time, the rand continues to benefit from favourable conditions for carry trades. Financial markets have remained relatively stable over the summer, contributing to emerging market FX volatility declining back towards year-to-date lows. Strong US corporate earnings in Q2 and renewed investor optimism over the positive impact of AI-related investment on the global economy have both helped lift global equity markets to fresh record highs. Investor risk sentiment has continued to improve despite higher energy prices and rising market interest rates, neither of which has yet been sufficient to trigger a meaningful unwinding of carry trades.

Low volatility conditions continue to favour a stronger ZAR

USD/ZAR VS. EM FX VOLATILITY

Source: Bloomberg, Macrobond & MUFG GMR

MUFG

Turkish lira

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/TRY	48.240	49.000	51.500	53.500	55.500
EUR/TRY	55.949	56.350	60.770	64.200	66.600
TRY/JPY	3.3174	3.2240	3.0290	2.8790	2.7390
		Consensus	Consensus	Consensus	Consensus
USD/TRY		49.000	51.000	53.000	55.000

MARKET UPDATE

Weaker

In August the Turkish lira weakened against the US dollar in terms of London closing rates from 46.656 to 48.240. The Central Bank of Turkey (CBRT) held the one-week repo rate at 37.00%.

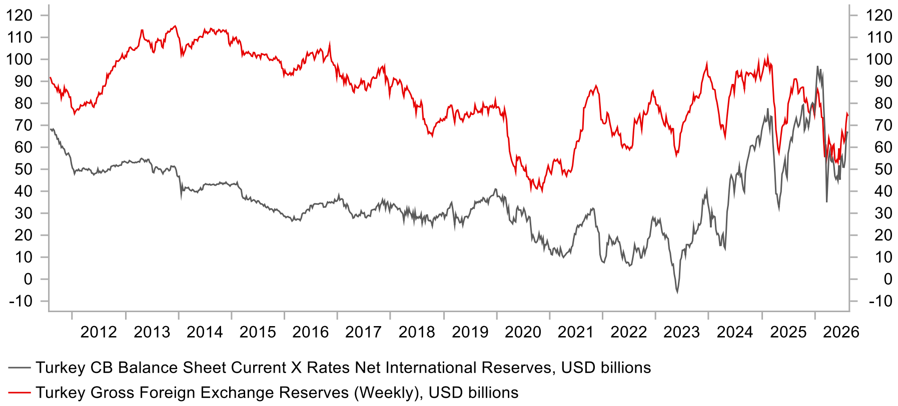
OUTLOOK

Energy price shock is encouraging faster pace of lira depreciation

The lira has continued to weaken against the US dollar at a faster pace in August. Since the start of April, the currency has depreciated at an annualised rate of around 18%, compared with an annualised pace of approximately 13% over the preceding four months. The acceleration in lira depreciation has been driven primarily by heightened geopolitical risks in the Middle East. The lack of progress towards ending the conflict between the US and Iran, and reopening the Strait of Hormuz, has fuelled ongoing investor concerns over global energy supplies. As a result, Brent crude oil prices remain around 30% higher than they were before the conflict began in late February. If sustained, higher energy prices would reinforce downside risks to both Turkey's economy and the lira. Fitch expects Turkey's current account deficit to widen by around 1.1 percentage points in 2026 to approximately 3% of GDP, reflecting higher energy import costs and weaker tourism inflows. At the onset of the US-Iran conflict, Turkey intervened heavily to support the lira, resulting in gross foreign exchange reserves falling by more than USD 60 billion to a trough of close to USD 150 billion in March. Reserves have since recovered, but only modestly. Following the sharp decline in foreign exchange reserves, the authorities appear to have become more willing to tolerate a faster pace of currency depreciation, a trend we expect to continue in the near term. At the same time, rising inflation risks are reducing the scope for further monetary easing. Higher energy costs are expected to add to domestic price pressures, discouraging the Central Bank of the Republic of Turkey (CBRT) from lowering interest rates further this year.

Reserve rebuilding has been modest since drawdown

TURKEY'S FX RESERVES



Source: Bloomberg, Macrobond & MUFG GMR

Indian rupee

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/INR	95.380	95.500	95.500	96.000	96.500
INR/JPY	1.6778	1.6540	1.6340	1.6040	1.5750
EUR/INR	110.62	109.80	112.70	115.20	115.80
		Consensus	Consensus	Consensus	Consensus
USD/INR		95.500	95.780	95.850	96.150

MARKET UPDATE

INR gained against the US dollar in August despite RBI's FX measures

In August, the Indian rupee gained very marginally against the US dollar to 95.380 from 95.385. The Reserve Bank of India kept its repo rate at 5.25% at its August 2026 meeting but importantly the Minutes communicated a more hawkish message.

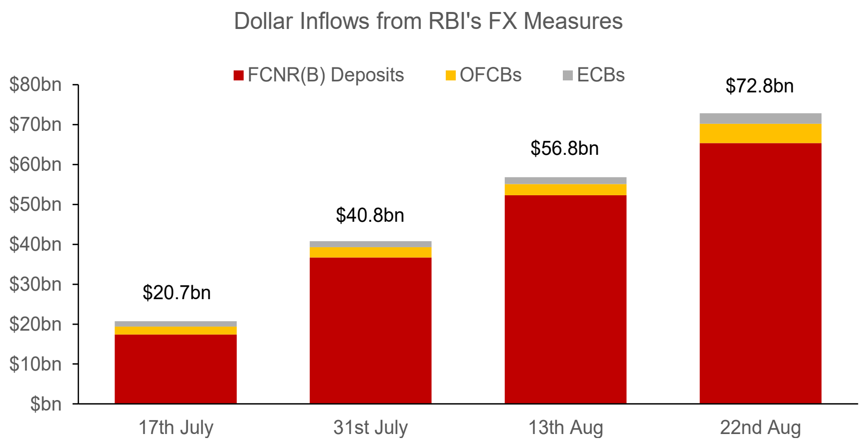
OUTLOOK

We shift our near-term USD/INR profile higher given the smaller than expected positive impact from RBI's FX measures so far and also reflecting other offsetting Dollar buying needs. We still see RBI's measures removing the left tail of sharp INR depreciation

We have shifted our near-term USD/INR forecast profile higher, and this implies some modest underperformance in INR. With our new profile, we now expect USD/INR to trade in a range-bound fashion over the next 3-6 months, before rebounding over the medium-term above 96.000. Nonetheless, the key message to clients is that the left tail risk of sharp INR depreciation such as what we saw earlier this year is unlikely to resurface for now. All these changes reflect the smaller than expected positive FX impact from RBI's FX measures so far, and also some offsetting Dollar buying needs including from strong IPO issuance. The latest indications from RBI is that the FX measures including the FCNR(B) have in combination generated nearly US$73bn in inflows so far as of 22nd August, and more likely to come soon. Some of these Dollars have been directly added to RBI's pool of FX reserves, but given the data we have seen we think some have been used to reduce RBI's net short forward book. While these Dollars do not generate a spot FX transaction at the first instance, they provide RBI with a much greater ammunition to intervene in the market while also adding INR liquidity into the market. Nonetheless, with one of the strongest monthly announcement of IPO issuances in August, and as such corresponding FDI repatriation outflow pressures and Dollar buying needs, we think USD/INR is more likely to trade in a range-bound fashion for now.

RBI's FX measures have drawn in more than US$70bn of dollar inflows so far

RBI'S MEASURES HAVE INDIRECTLY STABILISED FOREIGN INFLOWS



Source: CEIC, Bloomberg, MUFG GMR

Indonesian rupiah

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/IDR	17689	18100	18350	18500	18700
IDR/JPY(100)	0.9047	0.8730	0.8500	0.8320	0.8130
EUR/IDR	20516	20820	21650	22200	22440
		Consensus	Consensus	Consensus	Consensus
USD/IDR		17790	17800	17713	17625

MARKET UPDATE

IDR strengthened against the USD in August.

In August the Indonesian rupiah strengthened to 17,689 against the US dollar compared to 18,019 in July. BI kept the policy rate at 5.75% in August.

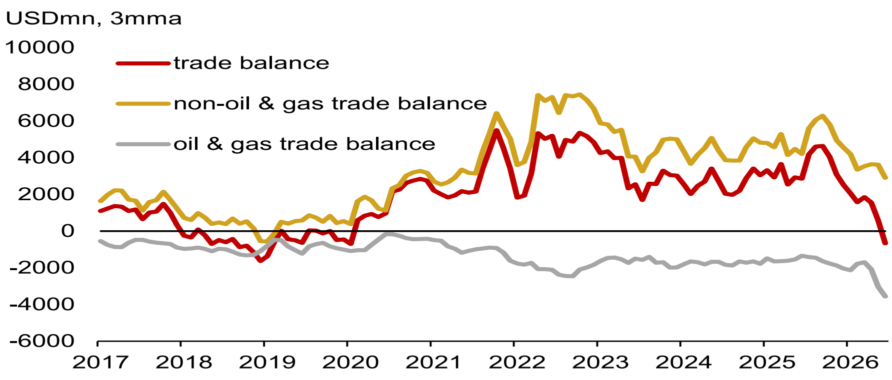
OUTLOOK

The rupiah has benefited from a softer US dollar, high carry, and improving policy credibility, but elevated oil prices, lingering MSCI investability concerns, and uncertainty over Indonesia's commodity export reform suggest that while near-term risks have eased, the case for sustained IDR appreciation remains unconvincing.

The rupiah has found some reprieve as the US dollar softened, while BI's commitment to FX stability has helped anchor market sentiment. Attractive carry remains a key support, with the 12-month SRBI yield at 7.36%, encouraging portfolio inflows. Foreign holdings of SRBI rose by around US$7bn between March and July, lifting foreign ownership to 27.1% of outstanding SRBI, close to late-2024 highs. On the fiscal front, the government has moderated spending plans for the free nutritious meal (MBG) programme, partially cushioning the impact of higher oil prices. The authorities are also targeting a narrower budget deficit of 2.4% of GDP next year, reinforcing the message of fiscal discipline. Investors appear increasingly willing to re-engage with Indonesian government bonds as valuations improve and policy credibility recovers. Indeed, bond market sentiment has improved, supported by S&P's reaffirmation of Indonesia's BBB sovereign rating with a stable outlook in July. Indonesia's 10-year government bond yield has fallen around 50bps from its June peak. That said, we remain cautious on the scope for sustained IDR appreciation. The ongoing Middle East conflict has kept Brent crude prices high, posing risks to Indonesia's trade balance and fiscal position. In addition, MSCI's investability concerns remain, highlighted by the removal of GoTo shares in August. Uncertainty surrounding Indonesia's state-led commodity export strategy also weigh on the medium-term outlook. Headline inflation remains manageable at 2.9%yoy, but risks are still skewed to the upside given elevated oil prices, rising agricultural costs, and the government's push for faster growth. In our view, markets have largely moved beyond near-term fears over IDR, but medium-term risks remain unresolved.

Goods trade deficits to weigh on the rupiah outlook

LARGE OIL AND GAS TRADE DEFICITS HURT THE TRADE BALANCE



Source: CEIC, MUFG GMR

MUFG

Malaysian ringgit

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/MYR	4.0230	4.0500	4.0300	4.0000	4.0000
MYR/JPY	39.779	39.010	38.710	38.500	38.000
EUR/MYR	4.6659	4.6580	4.7550	4.8000	4.8000
		Consensus	Consensus	Consensus	Consensus
USD/MYR		4.0000	4.0000	4.0300	4.0000

MARKET UPDATE

MYR strengthened against the USD in August.

In August the ringgit strengthened to 4.0230 against the US dollar from 4.0835 in July. BNM held its policy rate at 2.75% in July.

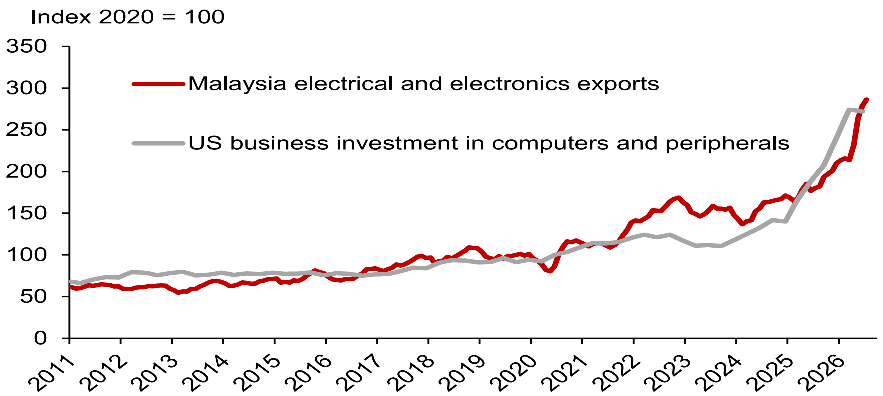
OUTLOOK

We are sanguine on MYR as easing political uncertainty, resilient 5%+ GDP growth, strong investor confidence, contained inflation, and a likely extended pause from BNM at 2.75% should support the ringgit and limit downside risks, prompting us to revise our end-2026 USD/MYR forecast lower to 4.0300.

We are sanguine on MYR in the coming months and now expect USD/MYR to end the year at 4.0300, down from 4.1500 previously, given easing domestic political uncertainty and strong domestic economic fundamentals. While periods of volatility cannot be ruled out, we believe much of the domestic political risk premium recently embedded in the ringgit has faded. DAP's decision to remain within the coalition government has reduced the likelihood of an early snap general election, despite recent setbacks in state elections. This provides a more stable political backdrop for financial markets into year-end. Malaysia's economy remains one of the stronger growth performers in the region. GDP growth is likely to come in more than 5% in 2026, following a strong H1 outturn. This will be supported by resilient household consumption, low unemployment of 2.9%, and robust domestic investment activity. The electronics sector continues to benefit from the global technology investment cycle, with electrical and electronics exports rising 42.5%yoy in H1. Despite heightened geopolitical tensions in the Middle East, Malaysia's economy expanded 6.0%yoy in Q2, accelerating from 5.4%yoy in Q1. Investor confidence also remains strong, as demonstrated by the government's US$1.5bn sukuk issuance, which was 4.7 times oversubscribed and achieved record-tight pricing. Headline inflation remains well contained relative to regional peers. Fuel subsidies continue to shield consumers from higher energy prices, which should help keep inflation around 2% and reduce pressure on Bank Negara Malaysia to tighten monetary policy. We expect the BNM Overnight Policy Rate to remain unchanged at 2.75% in September, and believe markets may have overestimated the likelihood of additional tightening.

Rising US business investment in computers help sustain Malaysia's robust electronics shipments

ELECTRONICS EXPORTS GAIN FROM US INVESTMENT IN COMPUTERS



Source: CEIC, MUFG GMR

Philippine peso

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/PHP	62.249	62.200	62.000	61.500	61.000
PHP/JPY	2.5708	2.5400	2.5160	2.5040	2.4920
EUR/PHP	72.196	71.530	73.160	73.800	73.200
		Consensus	Consensus	Consensus	Consensus
USD/PHP		61.700	61.200	61.000	60.800

MARKET UPDATE

PHP was weaker against the USD in August

In August, the Philippine peso was weaker against the US dollar to 62.249 from 61.240. The Philippines central bank hiked its policy rate to 5.00% at its August meeting, kept the door open to rate hikes while raising its inflation forecasts.

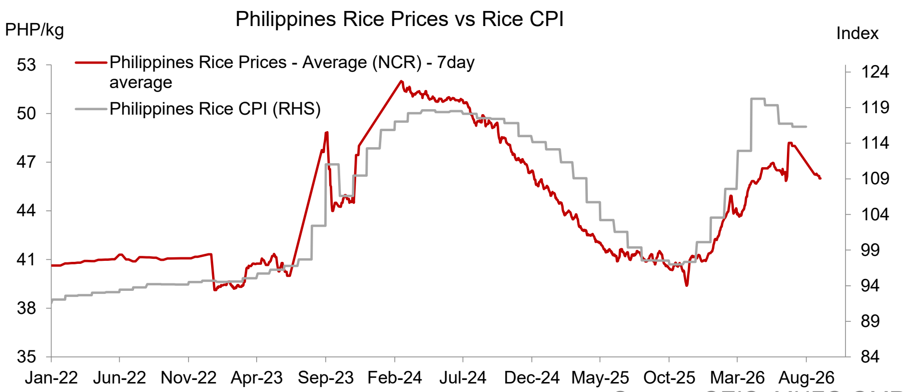
OUTLOOK

We shift our USD/PHP profile slightly higher but still expect the pair to strengthen gradually over time, supported by a still hawkish BSP, lower oil prices, coupled with some tentative improvement in government spending. Key risks include a Super El-Nino weather event and inflation risks from higher minimum wages

We have shifted our USD/PHP profile slightly higher, but our key message to clients is that PHP should still strengthen gradually over time in our base case. Our forecast change reflects USD/PHP recently breaking above the 62.000 level, and also driven by global factors more salient to PHP such as spikes in oil prices, coupled with the rise and stickiness in US yields. Of course over here whether these are driven by term premia or expectations of tighter policy through real yields matters a great deal. From a global perspective, our expectation is for both oil prices and US yields to move lower over time directionally. From a local perspective, we have seen some recent widening in the trade deficit but our expectation is that as oil prices come off the Philippines' trade deficit should also correspondingly narrow. Our model of USD/PHP shows that the most important factors driving the pair includes the trade deficit and also interbank rate differentials, with a rough rule of thumb that every 10% rise in oil prices weakens PHP by 0.9%. With our expectation for BSP to remain hawkish and deliver one more 25bps rate hike, coupled with our forecasts for some tentative improvement in government spending, we are comfortable with our baseline view for USD/PHP to move lower. A key risk for PHP is the possibility of a "Super El-Nino", with the NOAA's latest forecast showing a more than 80% chance of such a weather event happening. This could manifest to the Philippines through more extreme weather patterns with possible spillover effects for both global and domestic food prices, with higher second-round effects through inflation expectations.

While domestic rice prices have moderated slightly, a possible "Super El-Nino" weather event is a key risk moving forward

EL-NINO IS A KEY RISK FOR DOMESTIC RICE PRICES



Source: CEIC, MUFG GMR

Singapore dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/SGD	1.2744	1.2800	1.2750	1.2700	1.2700
SGD/JPY	125.57	123.40	122.40	121.30	119.70
SGD/MYR	3.1568	3.1640	3.1610	3.1500	3.1500
		Consensus	Consensus	Consensus	Consensus
USD/SGD		1.2800	1.2800	1.2700	1.2700

MARKET UPDATE

SGD strengthened in August against the USD.

In August the Singapore dollar strengthened to 1.2744 against the US dollar from 1.2832 in July. MAS raised the slope of S$NEER very slightly in July with no adjustments to its width or the level at which it was centred.

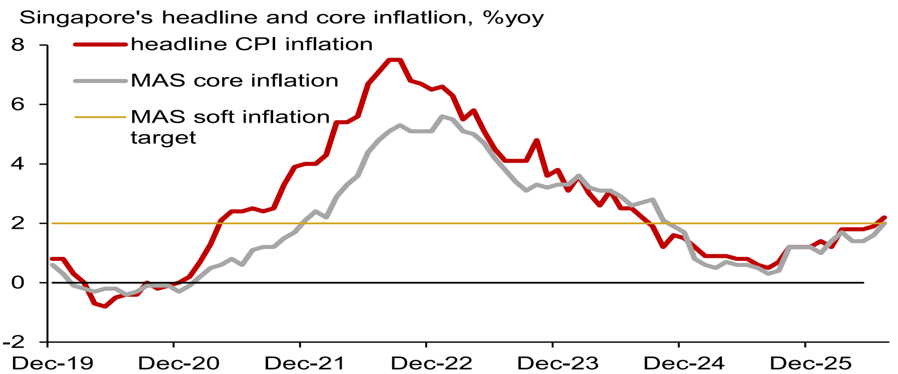
OUTLOOK

While USD/SGD may consolidate in the near term following recent SGD appreciation, Singapore's stronger growth momentum, resilient external demand, rising inflation risks, and a likely extended period of tight MAS policy should keep SGD broadly resilient and supportive of further gains over the medium term.

Singapore's economic fundamentals remain supportive of SGD's measured resilience. The economy expanded by a stronger-than-expected 5.9%yoy in Q2, driven by the ongoing AI-driven technology upcycle and resilient domestic demand. Indeed, non-oil domestic exports rose by 24.2%yoy in July, with electronics exports in particular surging by 112.0% and accounting for around 40% of total NODX. Singapore's PMI remained in expansion at 51.4 (above 50 indicates expansion) in July, while the electronics sector PMI was at 52.4 from 52.2 in June. Domestic activity has also remained healthy, with retail sales rising 4.0%yoy and 1.0%mom on a sequential basis. Excluding autos, retail sales was 4.1%yoy, up from 3.6%yoy. Reflecting the stronger growth outlook, the government upgraded its 2026 GDP growth forecast to 4.5%-5.5% from 2.0%-4.0% previously. The combination of robust domestic growth and strong external demand should continue to underpin SGD resilience. Inflation dynamics also remain supportive for the currency. Headline inflation rose to 2.2%yoy in July from 1.9%yoy in June, while core inflation increased to 2.0%yoy from 1.6%yoy, with core prices rising 0.3%mom. Although inflation remains manageable, risks are tilted to the upside given elevated energy prices and rising agricultural costs that could feed into food inflation. As a result, we expect MAS to maintain its relatively tight policy settings, providing continued support for SGD. Overall, while some consolidation in USD/SGD is possible after recent SGD strength, Singapore's strong growth momentum and rising inflation risks should keep the currency resilient to counter underlying and imported inflation pressures.

Inflation has steadily risen, with risks still tilted to the upside amid elevated energy prices and rising agricultural commodity prices

INFLATION RISKS ARE TILTED TO THE UPSIDE



Source Bloomberg, MUFG GMR

South Korean won

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/KRW	1378.7	1380.0	1370.0	1360.0	1350.0
JPY/KRW	8.6153	8.7300	8.7800	8.8300	8.880
EUR/KRW	1599.0	1587.0	1617.0	1632.0	1620.0
		Consensus	Consensus	Consensus	Consensus
USD/KRW		1445.00	1425.00	1420.00	1400.00

MARKET UPDATE

KRW significantly outperformed its Asian peers with strong exporters' conversion flow

In August, USD/KRW moved from 1437.0 to 1378.7. On 27th August, the Bank of Korea delivered a second straight 25bps rate hike, taking the policy rate to 3.00%. One board member dissented in favour of holding rates unchanged in a 6-1 vote.

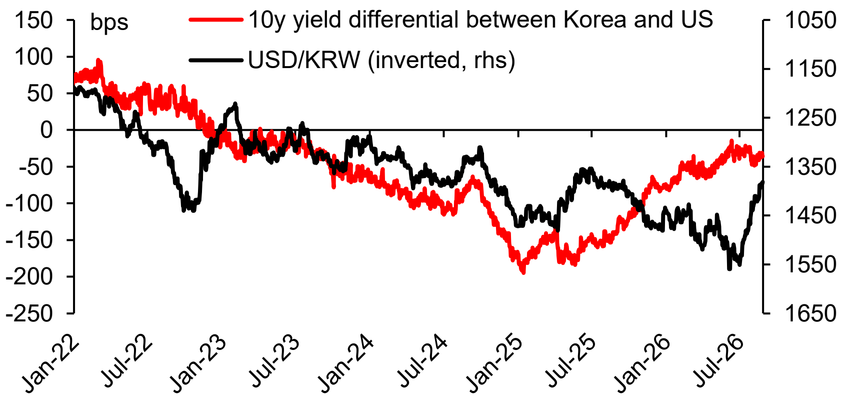
OUTLOOK

Near term consolidation for USD/KRW likely given the temporary nature of IPO-induced US dollar inflow in July-August period

The August BoK meeting reinforced the message that further tightening remains possible, but at a more gradual pace. Governor Shin characterised the recent back-to-back hikes as pre-emptive measures to anchor inflation expectations and contain housing and household debt risks, while signalling the Board would assess the impact of recent tightening before moving again. Most members' six-month-ahead rate projections point to a policy rate of around 3.25%, implying one additional 25bp hike from current levels. The BoK also revised up its growth outlook to 3.3% for 2026 and 2.9% for 2027, while expecting inflation to remain above its 2% target over both years. We expect the BoK to remain on hold in October while retaining a tightening bias, with one final 25bp hike possible by year-end, which would imply some narrowing of negative yield spread between South Korea and US. Together with strong AI-driven semiconductor exports, a sizeable current-account surplus and continued exporter dollar conversion, the macro backdrop should remain supportive for the KRW. While the sharp appreciation seen in July and August may moderate, particularly given the temporary nature of IPO-induced US dollar inflow in July and probably in August, we remain constructive on KRW as growth, capital inflows and trade fundamentals continue to improve. We adjust our USD/KRW forecasts to reach 1370.0 by the year-end.

Korea's narrower negative bond yield spread with US provides modest support for KRW too

NEGATIVE BOND YIELD SPREAD WITH THE US HAS NARROWED NOTABLY



Source Bloomberg, MUFG GMR

Taiwan dollar

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/TWD	31.609	31.500	31.400	31.000	30.700
TWD/JPY	5.0628	5.0160	4.9680	4.9680	4.9510
EUR/TWD	36.660	36.230	37.050	37.200	36.840
		Consensus	Consensus	Consensus	Consensus
USD/TWD		31.750	31.800	31.550	31.350

MARKET UPDATE

TWD had pared all the recent losses largely caused by the peak cash dividend payment season

In August, USD/TWD moved from 32.292 to 31.609. The June CBC meeting minutes showed that two board members dissented in favour of a rate hike, with one arguing that an early hike will be more effective in anchoring inflation expectations.

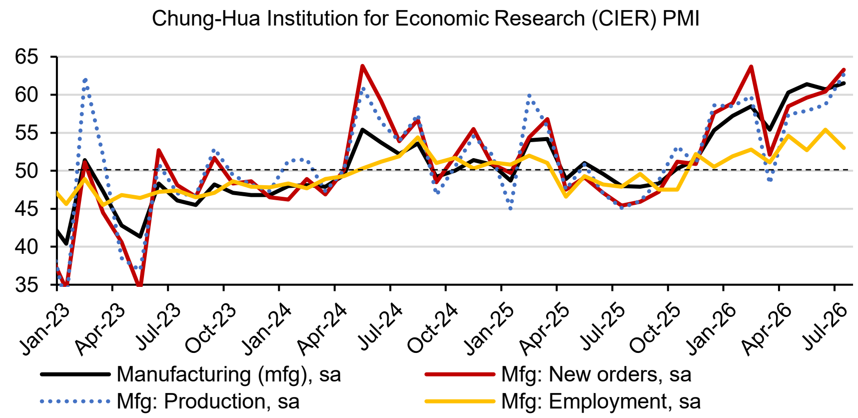
OUTLOOK

Intact semiconductor upcycle should remain a medium-term tailwind for TWD

As risk sentiment around tech recovered, TAIEX emerged as the outperforming equity index in Asia with around 7% gain. It was helped by foreigners' reignited interests which attracted USD 8bn net equity inflow, reversing the sizable outflow seen in previous two months. Together with weaker dollar and the fading of peak dividend season, TWD managed to appreciate moderately despite lingering concerns over a long-lasting Middle East conflict. Looking ahead, we remain optimistic about TWD outlook given the intact semiconductor upcycle, as Nvidia's latest earnings call projected a better-than expected revenue growth of 70% for its next fiscal year, well above estimates of 45%. Separately, Taiwan's statistics bureau projects the economy to grow by 6.04% in 2027, reflecting continued optimism over AI-led growth despite a slowdown from the exceptionally strong growth recorded this year. This upbeat GDP growth estimate is also consistent with the increase in the top 5 US hyperscalers capex to an estimated USD 1tn next year from USD 780bn this year, or 28%yoy growth despite slowing from 88%yoy recorded this year. All that said, sporadic concerns over tech valuation and Taiwan's wide negative bond yield spread with the US (-270bps for 10-year tenor) should cap the upside for TWD. Data wise, Taiwan's July export orders growth unexpectedly picked up further to 62%yoy, and the industrial production also surprised with growth acceleration to 25.6%yoy. July CPI inflation however continued to overshoot CBC's 2% alert level, increasing the risk of future CBC hikes.

Tech-driven manufacturing activities showed no signs of slowing down

THE PACE OF MANUFACTURING ACTIVITIES EXPANSION IS PICKING UP



Source: CEIC, MUFG GMR

Thai baht

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/THB	33.103	33.500	34.100	34.000	33.800
THB/JPY	4.8343	4.7160	4.5750	4.5290	4.4970
EUR/THB	38.393	38.530	40.240	40.800	40.560
		Consensus	Consensus	Consensus	Consensus
USD/THB		32.900	32.950	32.700	32.800

MARKET UPDATE

THB strengthened against the USD in August.

In August the Thai baht strengthened to 33.103 against the US dollar from 33.415 in July. The Bank of Thailand held its policy rate unchanged at 1.00% in August.

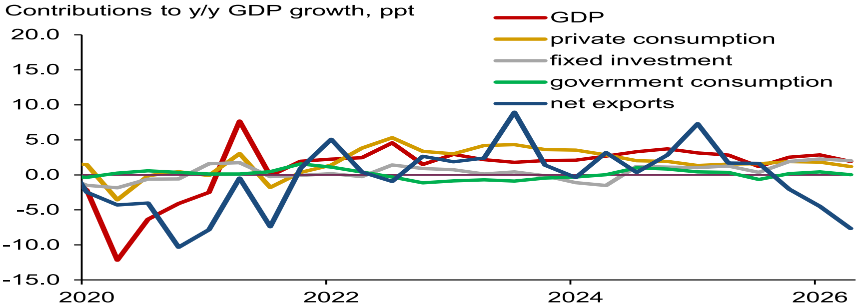
OUTLOOK

We expect further USD/THB upside as Thailand's below-potential growth, trade deficits, weak tourism recovery, capital outflows, and a BoT that is likely to keep rates unchanged despite higher oil prices leave the baht vulnerable to external shocks.

We expect further USD/THB upside, as Thailand's weak growth outlook, deteriorating external balances, and accommodative monetary policy leave the baht vulnerable. Thailand's growth momentum remains subdued and below potential. GDP growth slowed to 1.9%yoy in Q2 from 2.8%yoy in Q1, reflecting weaker private consumption and a large negative contribution from net exports. Private consumption growth moderated to 1.9%yoy from 3.3%yoy previously, while imports continued to outpace exports. Although investment growth remained strong at 9.1%yoy and the technology and AI investment cycle has boosted export-oriented sectors, the positive spillovers to the broader economy appear limited due to high import dependence. The BoT continues to project growth below Thailand's potential, highlighting persistent structural challenges including high household debt. Thailand's external position is also becoming less supportive. The customs trade balance remained in deficit at US$3.6bn in July following a US$6.5bn deficit in June. Elevated Brent prices near US$90/bbl are likely to remain a drag on the current account, particularly during the tourism off-season. Chinese tourist arrivals remain below half of pre-pandemic levels, limiting a key source of external support. Inflation remains relatively contained, with headline inflation at 2.0%yoy and core inflation at 1.3%yoy. While energy prices and weather-related disruptions may temporarily lift inflation, the BoT expects inflation to remain within its target range and appears willing to look through supply-driven price shocks. Against a backdrop of soft domestic demand, we expect the policy rate to remain unchanged at 1.00% through year-end. Portfolio flows remain unsupportive, with net bond outflows of US$165mn and equity outflows of US$476mn in August. Overall, weak growth, external headwinds, and a dovish BoT should keep THB under pressure relative to regional peers.

Net exports were a major drag

NET EXPORTS WERE A MAJOR DRAG ON THAILAND'S ECONOMY



Source: CEIC, MUFG GMR

Vietnamese dong

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/VND	26073	26050	26100	26200	26300
JPY/VND	162.93	164.90	167.30	170.10	173.00
EUR/VND	30239	29960	30800	31440	31560
		Consensus	Consensus	Consensus	Consensus
USD/VND		26400	26425	26450	26550

MARKET UPDATE

VND strengthened against the USD in July

In August, the Vietnamese dong strengthened against the dollar to 26,073 from 26,290. The State Bank of Vietnam kept its refinancing rate unchanged at 4.50%, with 3-month interbank rates moderating slightly to 7.6% with still tight liquidity.

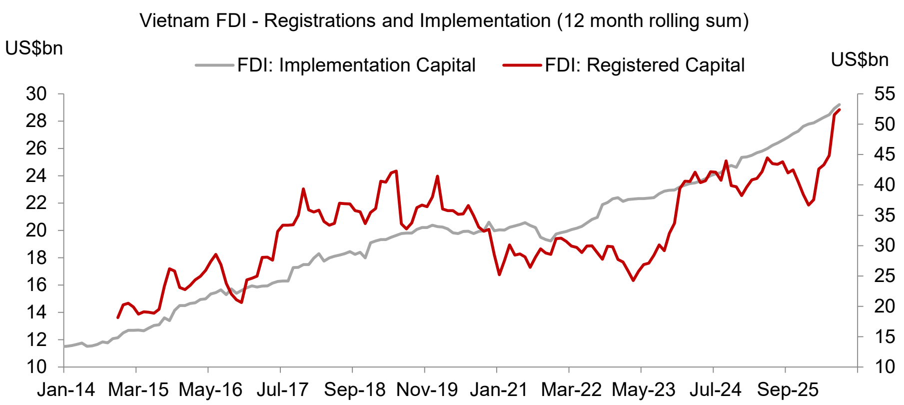
OUTLOOK

We now see more stability in USD/VND near-term in 2H2026, before a gradual move higher in 2027, reflecting stronger capital inflows than we previously anticipated. We remove our forecast of a rate hike by SBV

We now see more stability in USD/VND in 2H2026 from our previous expectation of gradual weakness. We forecast USD/VND ranging around 26,000-26,100 over the next few months, before a gradual rise towards the 26,200-26,300 levels in 2027. This compares with our previous expectation of a rise towards 26,700 in 2Q2027 for comparison. Driving our forecast is the fact that there has likely been larger capital inflows than we have anticipated, and this has come despite the widening in the trade deficit. While the official data is only reported with a lag, our best guess is that there has been a pick-up in FDI inflows, and this is also reflected in some improvement in FDI registrations and commitments. In addition, from a balance of payments perspective we think that a combination of lower Dollar deposit outflows by residents coupled with greater inflows of offshore loans including to fund onshore investment might help explain the stronger and more stable performance by VND so far. From a fundamental perspective, higher domestic VND interest rates have also helped in stabilising the flow picture, and this combined with stable Fed Funds rate has helped VND for now. Nonetheless, we note that State Bank of Vietnam has been gradually raising its USD/VND fixing rate and with that the ceiling for the past few months, and as such we think this signals more tolerance of FX weakness over the medium-term. With a high GDP growth target of 10%, we think there will be greater push for credit and liquidity from here. We now expect SBV to keep rates on hold, from our previous expectation of rate hikes, and see interbank rates trending lower gradually.

We now forecast more stability in USD/VND, and helped by stronger FDI inflows outweighing a wider trade deficit

STRONGER FDI HAS OUTWEIGHED A WIDER TRADE DEFICIT



Source: CEIC, MUFG GMR

Argentine peso

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/ARS	1513.1	1540.0	1600.0	1655.0	1700.0
ARS/JPY	0.1058	0.1030	0.0980	0.0930	0.0890
EUR/ARS	1754.9	1771.0	1888.0	1986.0	2040.0
		Consensus	Consensus	Consensus	Consensus
USD/ARS		1537.0	1591.0	1625.0	1675.0

MARKET UPDATE

Modestly weaker

In August the Argentine peso weakened sharply against the US dollar in terms of London closing rates from 1,488.9 to 1,513.1. The Argentine central bank (BCRA) held the benchmark overnight repo rate at 29.00%.

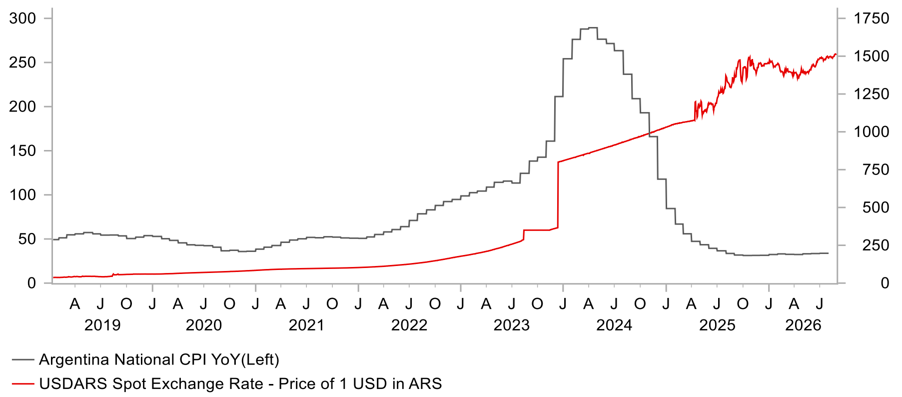
OUTLOOK

Higher energy prices may help but grad depreciation trend is intact

The peso weakened further in August and was the second worst performing LatAm currency in August, with only the Brazilian real performing worse. The USD/ARS trading band continues to gradually adjust higher and a seasonal slowdown in agricultural US dollar sales for pesos reinforces the upward pressure. Our medium-term view remains that USD/ARS will continue to grind higher even under circumstances when some of the macro FX factors have improved. President Milei's reform program has delivered a sharp decline in inflation, fiscal consolidation and improved investor confidence. Inflation fell from over 100% at the end of 2024 to the current level of 33.8% in July. While an improvement, this is still very high from an international standard and hence points to continued downside for ARS ahead. The FX regime links the nominal exchange rate band adjustment in USD/ARS to the level of inflation, with the objective being to maintain competitiveness at a stable level. That means inflation performance is directly tied to FX and much lower inflation is required before considering a more stable FX rate. The danger in the regime is that it creates a never ending cycle of inflation and ARS depreciation. The problem also is that the pace of ARS depreciation is behind the level of inflation meaning ARS in real terms is appreciating and undermining competitiveness. That fuels expectations of further depreciation. FX reserves hit a record high of USD 49.5bn in July and interest rates remain high which should help to reduce inflation further. But ARS valuation in real terms will continue to pressure ARS weaker.

Inflation remains too high to stabilise the peso

USD/ARS VS. ARGENTINA CPI YOY, %



Source: Bloomberg, Macrobond & MUFG GMR

Brazilian real

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/BRL	5.2147	5.2500	5.1500	5.0000	4.9000
BRL/JPY	30.688	30.100	30.290	30.800	31.020
EUR/BRL	6.0480	6.0380	6.0770	6.0000	5.8800
		Consensus	Consensus	Consensus	Consensus
USD/BRL		5.2000	5.2000	5.1800	5.1800

MARKET UPDATE

BRL depreciates

In August the Brazilian real weakened modestly against the US dollar in terms of London closing rates from 5.0704 to 5.2147. The Brazilian Central Bank (BCB) cut the Selic policy rate by 25bps to 14.00%.

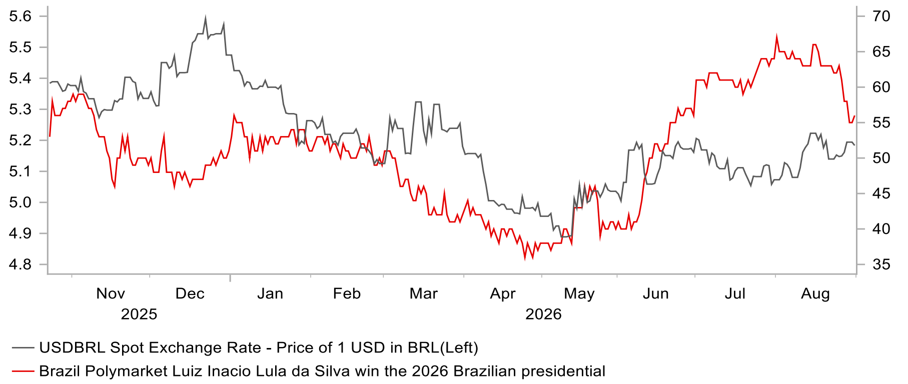
OUTLOOK

Improving terms of trade & carry demand countering political risks

The real weakened in August and indeed was the worst performing LatAm currency as fiscal risks begin to emerge on the approach of the presidential and congressional elections on 4th October. President Lula remains the frontrunner according to recent polling, but the margin over Favio Bolsonaro has narrowed, suggesting a potentially closely contested second round. A Datafolha poll in August had Lula on 39% versus Bolsonaro on 33% in the first round and 47% versus 43% in the second round. While the real was the worst performing LatAm currency in August, it has still held up well on a year-to-date basis suggesting the broader FX environment and yields in Brazil are offsetting these political risks. Given wobble in August, we are adjusting out end-Q3 USD/BRL forecast higher (5.20 to 5.25) just to reflect the prospect of political risk starting to dominate the attractive yield and carry on offer. Assuming a Lula victory we should then see some retracement given we assume yields remain high and FX vol low. But fiscal challenges are mounting and this could increasingly weigh on BRL performance, especially if the Fed is forced to hike rates this year. Continued high interest rates could also begin to undermine sentiment given the BRL 1.8trn worth of maturing debt in 2027. BRL 1.1trn of that are selic-linked securities. Floating rate debt takes up a large portion of debt and that will have an increased negative impact without credible fiscal measures put in place. Given that the BCB will remain cautious in cutting rates and given our broader USD depreciation view, we continue to see scope for USD/BRL to grind lower but risks of BRL underperformance are rising.

Narrowing election polls have increased concern over fiscal risks

USD/BRL VS. LULA ELECTION PROBABILITY



Source: Bloomberg, Macrobond & MUFG GMR

Chilean peso

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/CLP	927.85	930.00	915.00	880.00	870.00
CLP/JPY	0.1725	0.1700	0.1700	0.1750	0.1750
EUR/CLP	1076.1	1070.0	1080.0	1056.0	1044.0
		Consensus	Consensus	Consensus	Consensus
USD/CLP		915.00	904.00	896.00	885.00

MARKET UPDATE

CLP rebounds modestly

In August the Chilean peso advanced modestly against the US dollar from 926.90 to 927.85. The BCCh did not meet in August and hence the key policy rate was unchanged at 4.50%, following cumulative easing since July 2023 of 675bps.

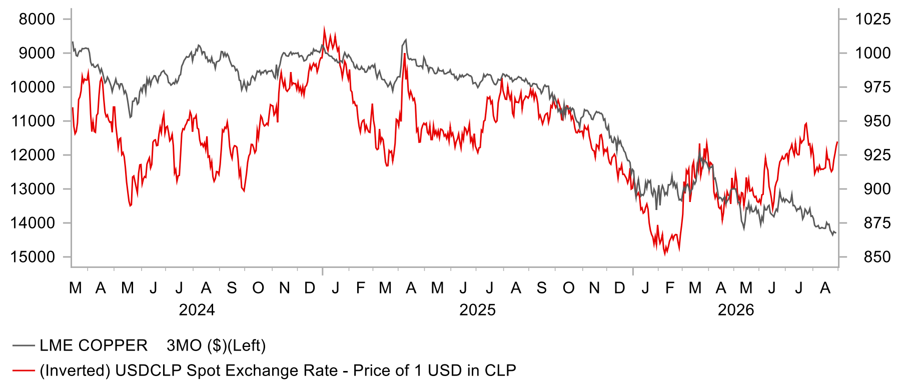
OUTLOOK

CLP downside risks related to Middle East / energy risks; Economic D-Day risks

The Chilean peso advanced in August but the gains were tempered by numerous risks globally that could undermine Chile's terms of trade. The price of copper remained close to a record high which helped support the peso but the escalation of tensions in the Middle East tempered some of those positive terms of trade benefits. The economic D-Day plan announced by the US included secondary sanctions that impacts China and uncertainty over the recent relatively stable bilateral US-China relationship increased. Crude oil prices have also been drifting higher that further offset the copper price benefits. Still, CLP was the third best performing LatAm currency in August with no dramatic worsening of the global growth outlook. However, risks appear skewed to the downside over the coming months with no obvious end to the Middle East conflict. The growth backdrop would also point to downside risks for CLP. Real GDP contracted by 0.2% on a YoY basis in Q2 following a 0.3% contraction in Q1, meeting the technical definition of a recession. The government has promised to focus on lifting growth by reducing red tape related to investment. Last month Congress passed President Kast's economic bill that includes gradual corporate tax cuts from 27% to 23%, tax incentives to boost investment and an easing of approval procedures. Given the risk of re-escalation of the conflict in the Middle East and raised US-China tensions, there is a risk of a more diluted positive terms of trade impact for Chile. We still expect USD/CLP to decline but last month we already raised the profile for USD/CLP to reflect these risks.

Elevated copper prices continue to support CHP

LME COPPER VS USD/CLP



Source: Bloomberg, Macrobond & MUFG GMR

Mexican peso

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/MXN	17.040	17.100	17.000	16.850	16.500
MXN/JPY	9.3914	9.2400	9.1760	9.1390	9.2120
EUR/MXN	19.763	19.670	20.060	20.220	19.800
		Consensus	Consensus	Consensus	Consensus
USD/MXN		17.250	17.350	17.450	17.500

MARKET UPDATE

MXN strengthens further

In August the Mexican peso gained notably against the US dollar from 17.325 to 17.040. Banxico, at its meeting in August kept the key policy rate unchanged at 6.50%. Banxico has cut by 475bps since the easing cycle began in March 2024.

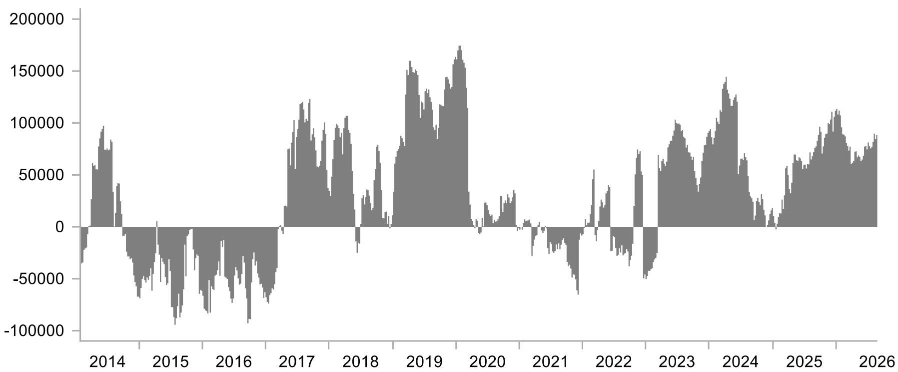
OUTLOOK

Strong outperformance leads to revision but still cautious on extent of further MXN gains from here

The Mexican peso had a stellar performance in August and was the second best performing LatAm currency with only COP outperforming. USD/MXN broke below the 17.000-level for the first time since June 2024 when domestic political risks resulted in a sharp depreciation of MXN. The broader depreciation of the US dollar and increased conviction that yields in Mexico will remain attractive were the key drivers of the peso's outperformance. The minutes from the August Banxico policy meeting revealed that the policy board was comfortable leaving rates on hold given services inflation was still sticky, overall inflation risks remained skewed to the upside and that convergence to the target rate would not happen until late 2027. The message looked very much like the policy rate could be left on hold for a longer period of time. We, along with other market FX forecasters, have underestimated the scale of gains this year and as a result, we have lowered our USD/MXN profile. But we are not adjusting notably and see scope for numerous corrections back higher, slowing the trend lower. While higher energy prices are a positive, a worsening of the Middle East situation could bring forward a broader risk off period that would undermine MXN. In addition, any AI-related sentiment hit could hit MXN as well. Mexico is benefitting from deeper integration into the AI investment boom in the US and exports key goods for that sector. Any turn in sentiment could hit MXN. Leveraged Funds are very long MXN with the outstanding position over the past four weeks on average the largest since early 2023. Reason for caution at stronger MXN levels.

Positioning has stretched in recent periods

IMM MXN SPECULATIVE POSITIONING



Source: Bloomberg, Macrobond & MUFG GMR

Saudi Riyal

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/SAR	3.7543	3.7500	3.7500	3.7500	3.7500
SAR/JPY	42.626	42.130	41.600	41.070	40.530
EUR/SAR	4.3542	4.3130	4.4250	4.5000	4.5000
		Consensus	Consensus	Consensus	Consensus
USD/SAR		N/A	N/A	N/A	N/A

MARKET UPDATE

The USD/SAR forward was broadly flat in August 2026

In August, the 12-month Saudi riyal (SAR) forward contract remained broadly flat against the US dollar in terms of London closing rates from 3.7551 to 3.7543. Given the USD currency peg, Saudi monetary policy continues to closely follow the Fed, to maintain the relative attractiveness of the peg and stem capital arbitrage.

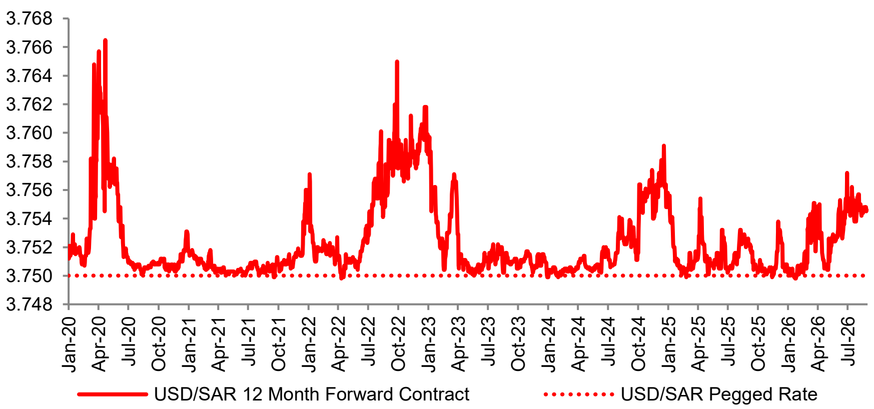
OUTLOOK

Strong buffers anchor SAR despite oil disruptions

Saudi Arabia's FX backdrop remains supportive of the SAR peg, underpinned by strong fiscal and external buffers, and resilient oil revenues despite a sharp deterioration in near-term economic activity. GDP contracted 4.8% y/y in Q2 as oil activity plunged 24.7% amid production and export disruptions, while non-oil growth slowed to 0.6%. However, July's PMI remained expansionary at 53.1, suggesting domestic private sector activity is holding up despite weaker exports and regional uncertainty. Higher oil prices have partly offset lower export volumes, supporting government revenues and Aramco profitability, with Q2 adjusted earnings rising 33% y/y, while alternative export infrastructure has helped maintain supply continuity. External pressures are nevertheless visible, with June's trade surplus falling 10% y/y as oil and non-oil exports declined amid higher shipping and rerouting costs. Meanwhile, PIF's strong profitability and continued domestic investment, alongside sizeable Saudi-France financing and investment agreements, reinforce Vision 2030 capital flows and longer-term diversification, although they could sustain import and outward-investment demand for FX. Industrial production is also beginning to recover, while moderating construction cost inflation should ease some pressure from the Kingdom's large investment pipeline. Overall, strong oil revenues and ample fiscal and external buffers continue to underpin the SAR peg, with geopolitical tensions and weaker trade posing manageable near-term risks.

USD/SAR peg remains secure despite regional volatility

12-MONTH USD/SAR FORWARD CONTRACT VS. PEG



Source: Bloomberg, MUFG

Egyptian Pound

	Spot close 28.08.26	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD/EGP	50.220	49.750	51.000	52.500	54.000
EGP/JPY	3.1866	3.1760	3.0590	2.9330	2.8150
EUR/EGP	58.245	57.210	60.180	63.000	64.800
		Consensus	Consensus	Consensus	Consensus
USD/EGP		N/A	N/A	N/A	N/A

MARKET UPDATE

The EGP remained steady against the US dollar in August

In August, the Egyptian Pound (EGP) remained roughly steady against the US dollar in terms of London closing rates at 50.220.

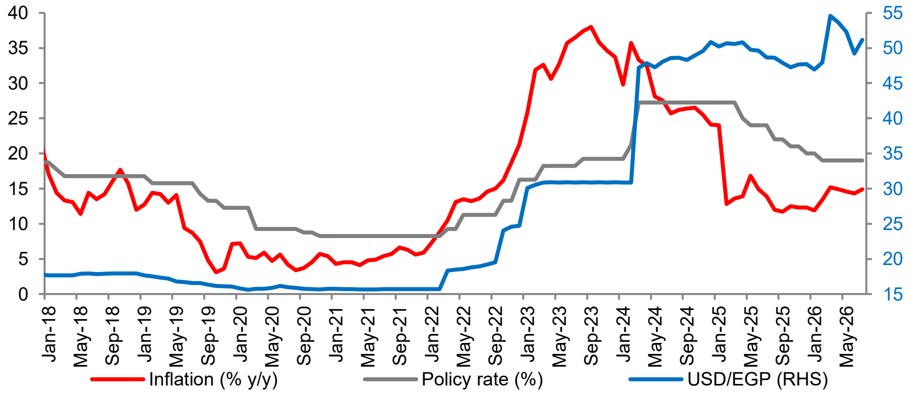
OUTLOOK

Strong external buffers support EGP, while inflation and fiscal risks persist

Egypt's FX backdrop remains broadly supportive for the EGP, although elevated inflation, large financing needs and regional uncertainty should limit significant appreciation. The IMF's latest reviews unlocked USD1.8bn in financing and reinforced policy credibility, while record FX reserves of USD56.3bn and FY25/26 remittances of USD47.3bn have strengthened external liquidity and the Central Bank of Egypt (CBE)'s ability to absorb shocks. The current account deficit should also gradually narrow as oil prices normalise and Suez Canal revenues recover. Economic growth remains relatively solid, with the IMF projecting 4.6% in FY25/26 and 4.4% in FY26/27, although July's PMI of 46.8 continues to signal private sector contraction despite improving business confidence and easing cost pressures. Inflation remains the main constraint, with headline and core CPI rising to 14.9% and 14.7% in July, respectively, prompting the CBE to maintain deposit rate at 19% and lending rate at 20%. Sustained positive real rates should support EGP carry attractiveness and limit dollarisation. Fiscal risks remain significant, with gross financing needs projected near 42% of GDP, but the government's plan to fund 89–93% of FY26/27 borrowing domestically and keep new external borrowing below maturities should reduce incremental FX demand. Overall, strong reserves, remittances, IMF inflows and tight monetary policy point to a stable-to-firmer EGP bias, while inflation, heavy domestic financing requirements and geopolitical risks should favor currency stability rather than sharp appreciation.

Robust external buffers underpin EGP stability despite lingering inflation and fiscal pressures.

EGYPT INFLATION (% Y/Y), POLICY RATE (%) AND USD/EGP



Source: CBE, Bloomberg, MUFG Research

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