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Upside JPY risks as momentum turns

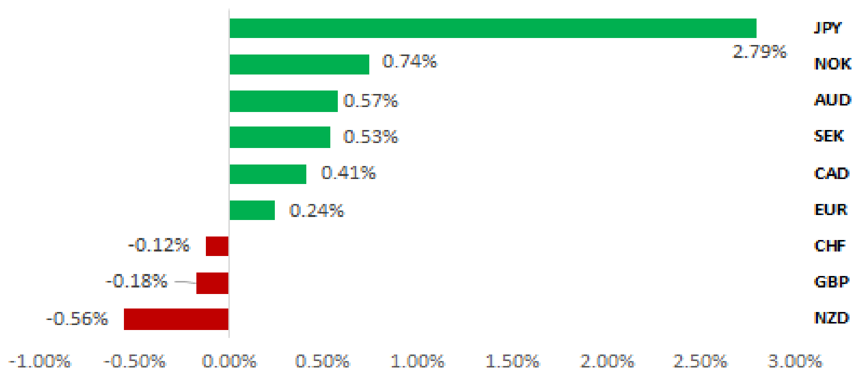
FX View: The week is ending with the US front-end rates jumping modestly after the stronger than expected US jobs report. The contained reaction reflects the greater importance attached to the US CPI data next week ahead of the still finely balanced FOMC meeting on 16th September. The FX response has been even more muted – indeed USD/JPY selling has picked up underlining the shift in momentum that could be feeding into a shift in USD/JPY expectations. This week we assess the largest weekly USD/JPY drop (outside of intervention episodes) since the second week of February when PM Takaichi and the LDP won the election. Retail margin traders were likely part of the JPY buying this week after building up a record short position in July according to FFAJ data. Momentum is key for positioning and risks are high of further JPY buying. We also look ahead to the ECB meeting next week and with the OIS pricing indicating further hikes, the bar is high for a hawkish surprise suggesting EUR risks may be skewed a little to the downside. EUR moves may be contained though ahead of US CPI on Friday.

Trade Ideas: We are recommending a new short EUR/JPY trade idea, and have taken profit on our long AUD/JPY trade recommendation.

JPY Flows: This week we analyse the monthly International Transactions in Securities that showed strong NISA-related foreign equity buying and continued foreign asset switching from equities to bonds by Japan Trusts.

FX Weekly Options Flow Report: USD/JPY options activity points to investors positioning for a stronger JPY over short and longer periods.

JPY SURGE AS SHORT JPY POSITIONS CUT ON FASTER BOJ HIKES



Source: Bloomberg, as of 4th September 14:30 BST (Weekly % Change vs. USD)

JPY: Short yen positions vulnerable to further squeeze

Yen has its largest weekly gains since February

The USD/JPY rate has had its biggest weekly drop since the 2nd week of February when the markets were responding to the general election victory prompted a surge of the yen on expectations of stronger economic growth fuelled by increased fiscal spending. That reaction faded quickly and the yen turned lower on concerns over fiscal dominance undermining the BoJ ability to bring inflation under control. Will this latest yen surge also fade quickly? We certainly think the prospects are much better that this latest surge turns out to be more lasting than the move in February.

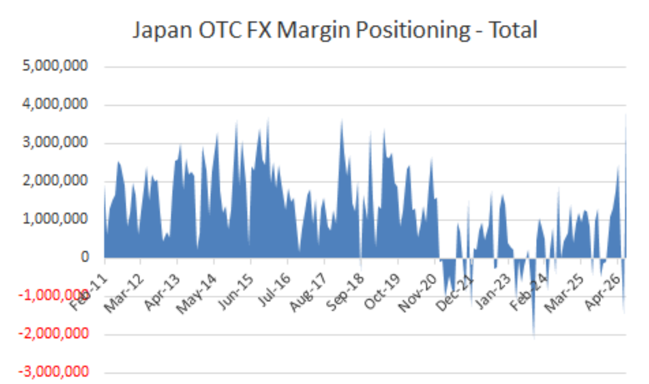
BoJ was one trigger, but the speculation will prove false

One key difference of course is the BoJ and concerns over the BoJ being behind the curve have fuelled more aggressive pricing on future policy moves. The trigger was the speech by policy board member Hajime Takata who spoke of a potential faster pace of monetary tightening. Takata stated that a 25bp hike is “not necessarily set in stone” and spoke of potential back-to-back hikes as well. There is next no chance that the BoJ would hike by 50bps and the Bloomberg news source headline that only a 25bp move was being considered helped dampen down rate hike pricing – pricing for September did reach 30bps but has reversed back. This makes complete sense and the first course of action would certainly be upping the pace further meeting to meeting. A hike in September takes us to every three months. Back-to-back would be the obvious next step before a larger hike would be considered and even back-to-back rate hikes seems a low possibility at this stage. The curve currently has 80bps priced by June 2027, close to our view of hikes in September, January and June 2027 taking the policy rate to 1.75%. We are not convinced that pace of tightening will trigger a larger FX move and given one of the trigger of the yen gain this week was a larger hike or a back-to-back hike, this factor may not be sustained as a yen buying driver.

Positioning key over short-term – retail margin traders were probably heavy yen sellers into yen buying intervention

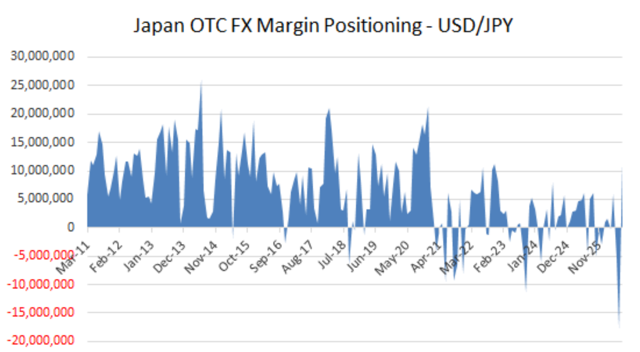
How big is the yen carry position? This is a question we are often asked and in our view it is difficult and even misleading to suggest a figure can be put on this. But of course we can look at certain areas of the market to provide us with a gauge and certain positioning metrics certainly point to the potential for a further liquidation of yen short positions from here. The IMM data is the most known data set and that showed a 185k short yen position across Leveraged Funds and Asset Managers prior to intervention. That’s equivalent to JPY 2.35trn short position ($15bn @ USD/JPY 155). 85k contracts have been cut so there remains scope for further liquidation and tonight’s IMM data will probably show a more notable reduction in this yen short position. The FFAJ OTC margin trading positioning data showed a huge swing in positioning between June and July primarily due to USD/JPY. In yen terms, the net position for all yen trades went from a long yen positions of JPY 1.45trn to a yen short position of JPY

RETAIL FX POSITIONS SHOWS RECORD JPY SELLING



Source: FFAJ & MUFG GMR; July 2026 latest data

USD/JPY POSITION IMPLIED $29BN USD/JPY BUYING



Source: FFAJ & MUFG GMR; July 2026 latest data

4.13trn. That's a JPY 5.58trn yen selling flow in July and the dominant shift was very likely in the final two days of July when intervention took place – so given the MoF has confirmed JPY 15.4trn worth of yen buying on 30th / 31st July, we can reasonably assume that margin retail flows may have been on the other side of possibly about one-third of the yen buying intervention. The FFAJ OTC positioning data implies record retail margin yen selling in July. Furthermore, extending this further to this week's price action it could well be that margin retail traders may have had a rethink on the potential scale of upside potential. We have seen active yen buying this week by the retail sector. The BIS yen cross border claims total, reported in US dollars, has been rising throughout the period of USD/JPY gains post-covid suggesting total yen funding has grown which would in part reflect a growing yen carry position.

Momentum shapes expectations on future direction and could alter yen trading behaviour

Given this week's USD/JPY has been so large and not triggered by a specific macro event as such, it could certainly have an impact on investors' expectations of future direction. If investors start to consider the prospects of a more meaningful turn in USD/JPY then Japanese investors may consider converting larger portions of their investment income. This surplus now makes up the entire current account surplus and greater conversion rates would add to yen demand. Similarly, foreign investors are paid to hedge yen exposure in their Japanese equity investments. So yen selling hedging tends to be high. Since April 2025, after the Liberation Day correction, USD/JPY has advanced from 140 to 160 and the Topix index has gained 80%. Foreign investors have bought JPY 18.8trn ($123bn @ USD/JPY avg 153.5) worth of Japan equities in that period. While it pays to hedge, foreign investors could consider lowering hedge ratios if USD/JPY expectations start to shift and yen sentiment improves.

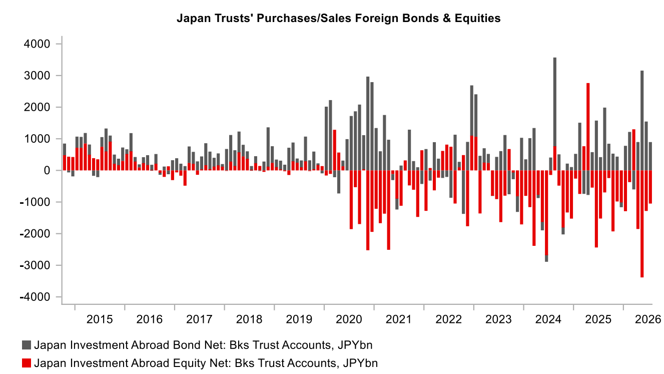
No signs yet of capital repatriation

Another factor helping the yen this week were the reports of the GPIF holding a meeting on 21st August – an unusual month to meet – that fuelled speculation of an imminent change in asset allocation. It certainly makes sense to us that the GPIF may well be considering a change. Since March when the current allocation was last confirmed, the 30-year JGB yield is 50bps higher and the 10-year yield is 70bps higher. Those are very big moves that could alter risk-reward dynamics for a long-term investor like GPIF. The latest available flow data does not indicate any shift however with the main focus shifting from foreign equities into foreign bonds rather than showing any outright sales of foreign assets.

US factors matter too to whether momentum is turning

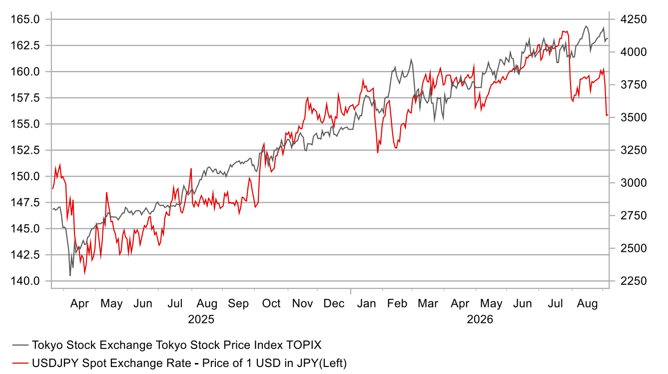
These developments in Japan will be important but near-term momentum for USD/JPY will also be dictated by broader US dollar moves. Today's NFP data reduces these risks somewhat, but the CPI data next week is much more important. Still, the USD/JPY selling following the stronger NFP data is telling.

TRUSTS SWITCHING FOREIGN ASSETS NOT SELLING



Source: Bloomberg, Macrobond & MUFG

TOPIX INDEX VS USD/JPY SINCE LIBERATION DAY



Source: Bloomberg, Macrobond & MUFG GMR

EUR/USD: Holding up better than expected ahead of ECB meeting

EUR rebounds after Jackson Hole sell-off proves to be short-lived

The EUR has rebounded against the USD over the past week. After falling to a low of 1.1566 earlier in the week, EUR/USD rebounded towards pre-Jackson Hole levels at around 1.1640 prior to today's stronger NFP print. Recent price action in the pair has been driven primarily by the USD leg. The USD initially strengthened following Jackson Hole in response to hawkish comments from Kevin Warsh, who indicated that the Fed would still have work to do if policymakers were not confident that underlying inflation was moving towards target clearly and at a sufficient pace. He also downplayed the stronger-than-expected PCE and CPI readings over the summer, stating that they "do not tell me that underlying trends have meaningfully improved". While the comments were not intended as forward guidance to prepare the market for a hike, they have nevertheless contributed to rising expectations that the Fed could hike in September.

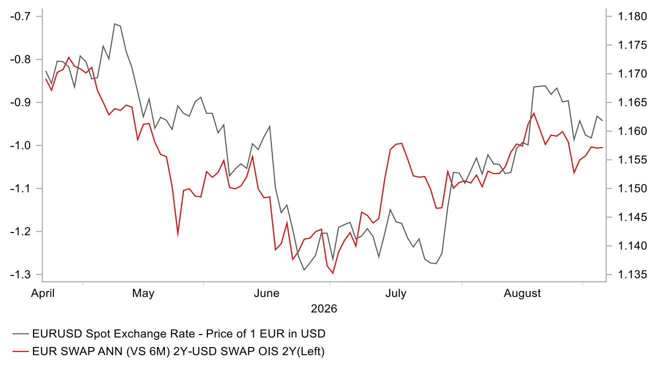
Dovish Fed leadership signal not in rush to hike rates this month if underlying inflation slows

However, a hike as early as this month is far from a done deal. Dovish comments from New York Fed President John Williams and Fed Governor Christopher Waller, both influential members of the Fed leadership team, have since helped to temper rate hike expectations and weighed on the USD. President Williams described recent inflation data as "encouraging" and said he sees "the trend in inflation moving slowly down as some of the effects of the tariffs move into the rear-view mirror". Governor Waller also signalled that he is in no rush to raise rates this month. While acknowledging that inflation remains "meaningfully" above the Fed's target, he noted that recent data points to some cooling in price pressures. He stated that, "If this continues in the data due over the next two weeks, I would be inclined to support holding the target for the fed funds rate at its current setting." As a result, the release of the August CPI report on 11th September is becoming increasingly pivotal in determining whether the Fed hikes ahead of the mid-term elections in November.

Building expectations for further ECB hikes have provided support for EUR ahead of upcoming policy meeting

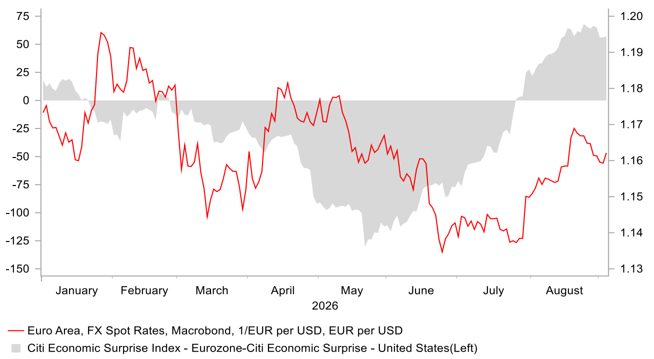
In contrast, the ECB is expected to deliver its second hike since the start of the US-Iran conflict in the week ahead. Another 25bp increase is already fully priced in ahead of the upcoming policy meeting. As a result, the performance of both the EUR and euro-zone rate markets is likely to be driven more by the ECB's updated policy guidance than by the rate decision itself. The rates market has moved to price a more hawkish policy outlook over the summer, supported by a renewed surge in natural gas prices, which have climbed to fresh highs since the conflict began. At the same time, the euro-zone economy has proven more resilient than expected in the face of the energy price shock. Growth accelerated to 0.4% QoQ in Q2, while business confidence surveys have fully reversed the declines recorded immediately after the conflict erupted. Market participants now expect the ECB to deliver three additional rate hikes by the middle of next year, with almost two further hikes fully priced in by year-end.

NARROWING YIELD SPREAD HAS SUPPORTED EUR



Source: Bloomberg, Macrobond & MUFG

EUR & EURO-ZONE ECONOMY PROVING RESILIENT



Source: Bloomberg, Macrobond & MUFG GMR

ECB to lift policy rate to top of neutral range but will restrictive policy be required?

If delivered, the hikes would lift the ECB's policy rate to 3.00%. Such a move would also take the policy rate back into restrictive territory. In a speech in June, ECB Chief Economist Philip Lane indicated that the upper end of the ECB's estimated neutral rate range may have risen to 2.50%. Our baseline view has been that the ECB would raise rates to the top of the neutral range with a final hike at the upcoming meeting. Moving rates further into restrictive territory would require a greater degree of concern about upside risks to the inflation outlook. Given the limited evidence so far of significant second-round effects stemming from higher energy prices, we remain sceptical that the ECB will commit to a third rate hike before year-end. On the other hand, we do not expect the ECB to signal that its tightening cycle has come to an end. We are maintaining our forecast (click here) for one final hike, while acknowledging a higher risk that rates may need to rise further if second-round inflation effects emerge.

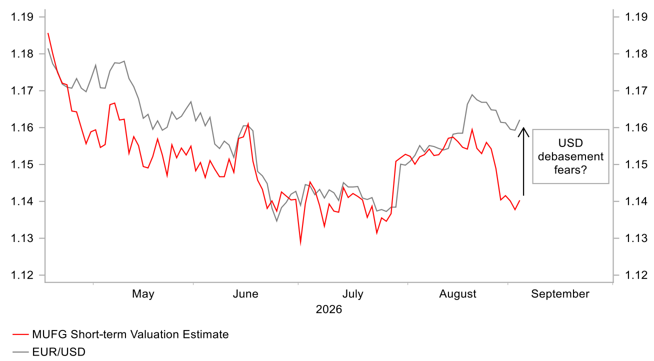
Higher hurdle now for hawkish ECB policy surprise. EUR may weaken if ECB does not commit to another hike before year end.

The EUR has strengthened against the USD over the past couple of months alongside a narrowing in short-term yield spreads. However, with the euro-zone rates market now almost fully pricing in 75bps of additional ECB tightening, the bar for a further hawkish policy surprise has risen significantly. The greater risk is that the ECB falls short of these expectations by delivering less tightening than markets currently anticipate. The EUR could weaken modestly next week if President Lagarde does not endorse market expectations for another rate hike before year-end. Nevertheless, the near-term direction of EUR/USD is still likely to be driven primarily by developments on the USD side of the equation. Based on short-term fundamental drivers, including energy prices, we would expect EUR/USD to be trading closer to the lower end of its recent 1.1400 to 1.1800 range. This suggests that the recent bout of USD weakness reflects market participants pricing in a bigger US policy risk premium. USD debasement (click here) fears re-emerged after the US Treasury took steps to suppress long-term yields.

Rising natural gas prices in Europe and upcoming elections pose downside risks for EUR

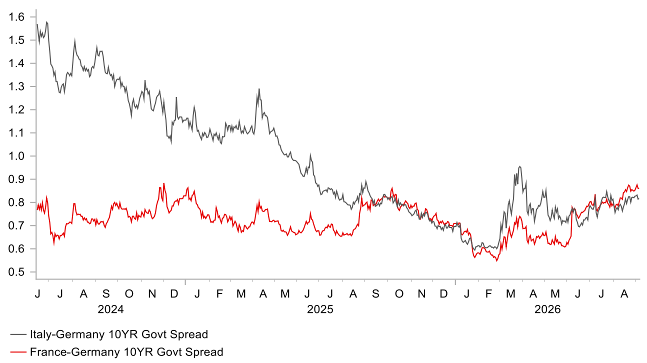
Downside risks for the EUR would increase if European natural gas prices continue to rise heading into the winter, particularly if accompanied by signs that the euro-zone economy is becoming less resilient to higher energy costs. Political risks in Europe are also likely to attract greater attention as next year's elections in France and Italy draw closer. In the near term, attention will focus on upcoming state elections in Germany. Elections are scheduled to take place in Saxony-Anhalt (6 September), Mecklenburg-Western Pomerania, and Berlin (20 September). The far-right Alternative for Germany (AfD) party currently holds a comfortable lead in polls in Saxony-Anhalt, raising the possibility that it could become the first German state to be governed by a far-right party in the post-war era. While we do not expect these state elections to result in significant changes to government policy or undermine support for growth through an accommodative fiscal stance, a poor showing by the governing parties could nevertheless add to political uncertainty.

BIGGER US POLICY RISK PREMIUM PRICED INTO USD?



Source: Bloomberg, Macrobond & MUFG

FRENCH GOVERNMENT BONDS UNDERPERFORMING



Source: Bloomberg, Macrobond & MUFG GMR

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
EUR	06/09/2026		Saxony-Anhalt State Election in Germany				!!!
SEK	07/09/2026	07:00	CPI YoY	Aug P	--	0.2%	!!
EUR	07/09/2026	07:00	Germany Industrial Production SA MoM	Jul	--	0.2%	!!
EUR	07/09/2026	09:30	Sentix Investor Confidence	Sep	--	90.0%	!!
EUR	07/09/2026	10:00	GDP SA QoQ	2Q T	--	0.4%	!!
EUR	07/09/2026	10:00	Employment QoQ	2Q F	--	0.1%	!!
JPY	08/09/2026	00:30	Labor Cash Earnings YoY	Jul	3.8%	4.0%	!!
JPY	08/09/2026	00:50	GDP SA QoQ	2Q F	0.4%	0.3%	!!
JPY	08/09/2026	00:50	BoP Current Account Balance	Jul	¥2800.0b	-¥92.3b	!!
EUR	08/09/2026	07:00	Germany Trade Balance SA	Jul	--	15.3b	!!
USD	08/09/2026	11:00	NFIB Small Business Optimism	Aug	--	99.8	!!
EUR	09/09/2026	07:45	France Industrial Production MoM	Jul	--	0.1%	!!
GBP	10/09/2026	00:01	RICS House Price Balance	Aug	--	-30%	!!
SEK	10/09/2026	07:00	GDP Indicator SA MoM	Jul	--	-0.2%	!!
EUR	10/09/2026	07:00	Germany CPI YoY	Aug F	--	2.9%	!!
SEK	10/09/2026	07:00	Industrial Orders MoM	Jul	--	32%	!!
NOK	10/09/2026	07:00	CPI YoY	Aug	--	3.0%	!!
EUR	10/09/2026	09:00	Italy Industrial Production MoM	Jul	--	-1.0%	!!
EUR	10/09/2026	13:15	ECB Deposit Facility Rate		2.50%	2.25%	!!!
USD	10/09/2026	13:30	Initial Jobless Claims		--	--	!!
USD	10/09/2026	13:30	PPI Final Demand MoM	Aug	0.4%	0.0%	!!
EUR	10/09/2026	13:45	ECB President Lagarde Press Conference				!!!
USD	10/09/2026	15:00	Existing Home Sales	Aug	3.99m	4.06m	!!
GBP	11/09/2026	07:00	Monthly GDP (MoM)	Jul	--	0.3%	!!
GBP	11/09/2026	07:00	Trade Balance GBP/Mn	Jul	--	-£5537m	!!
USD	11/09/2026	13:30	CPI YoY	Aug	3.4%	3.4%	!!!
USD	11/09/2026	15:00	U. of Mich. Sentiment	Sep P	--	51.7	!!
EUR	11/09/2026	18:00	ECB's Lane Speaks				!!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- The main economic release in the week ahead will be the US CPI report for August, due on Friday. The report is increasingly viewed as pivotal in determining whether the Fed will raise rates later this month, ahead of the US mid-term elections in November. Comments from Kevin Warsh at Jackson Hole suggested that policymakers would need to see convincing evidence of softer underlying inflation to rule out a rate hike, particularly with oil prices having moved back towards USD100/barrel. However, subsequent comments from New York Fed President Williams and Governor Waller have indicated that the Fed's more dovish leadership remains inclined to keep rates on hold, provided the August CPI report shows further moderation in inflation pressures. As a result, the upcoming CPI release is likely to play a decisive role in shaping market expectations for the September FOMC meeting.

- The ECB is widely expected to deliver a second 25bp rate hike in response to the energy price shock. We expect policymakers to express greater concern about recent developments in the Middle East, which have pushed European natural gas prices to their highest levels since the start of the US-Iran conflict. The combination of rising gas prices and the euro-zone's resilience in the face of higher energy costs is likely to reinforce the case for further policy tightening. We expect the ECB's updated guidance to leave the door open to additional rate hikes, while stopping short of signaling a strong commitment to another move. Such a stance would allow policymakers to retain flexibility as they assess the persistence of inflation pressures and the impact of higher energy prices on growth and inflation dynamics.

- German politics are likely to attract greater market attention at the start of next week. The German state of Saxony-Anhalt will hold a regional parliament election this weekend. Recent polling indicates that the right-wing AfD holds a clear lead over the governing coalition parties in the state, namely the CDU, SPD, and FDP. The party could secure a sufficiently large share of the vote to become the dominant force in the state parliament. While a weak performance by the governing coalition parties could contribute to greater political uncertainty in Germany, the immediate policy implications are likely to be limited. We do not expect the election outcome to materially alter the national policy outlook. Fiscal policy is still expected to remain supportive, continuing to provide a tailwind for economic growth.

New Trade Ideas

SHORT EUR/JPY – **OPENED** @ 181.40 (TARGET @ 176.00 & STOP-LOSS @ 184.40)

Downside risks are increasing for a move lower in EUR/JPY

We are recommending a new short EUR/JPY trade idea. The JPY has staged a strong rebound over the past week, pushing EUR/JPY back towards a key support level around 180.00. Unlike previous episodes, yen strength on this occasion appears to have been driven more by underlying fundamentals than by intervention. Expectations for a faster pace of BoJ policy tightening and the resulting narrowing of yield differentials have helped to support the JPY. At the same time, renewed speculation that Japan's Government Pension Investment Fund (GPIF) could shift its asset allocation more towards domestic investments has provided an additional boost to sentiment towards the currency. A decisive break below key technical support levels would signal the potential for a more sustained recovery in the JPY. However, rising energy prices remain a headwind, given Japan's dependence on energy imports, while ongoing fiscal concerns continue to weigh on the medium-term outlook. On the other side of the cross, the EUR could come under pressure if the ECB fails to validate market expectations for a third hike by year-end. Furthermore, we believe the negative impact of higher natural gas prices in Europe has yet to be fully reflected in the EUR, creating additional downside risks for the single currency.

Closed Trade Ideas

LONG AUD/JPY – **CLOSED** @ 114.50 (OPENED @ 111.20, TARGET @ 114.50 & STOP-LOSS @ 109.20)

AUD/JPY rebounded supported by reversal of intervention driven JPY strength & rising commodity prices

We have closed our long AUD/JPY trade recommendation after it reached its profit target at the end of last month. The trade was initiated following coordinated intervention by the US and Japan to support the JPY. At the time, we argued that intervention alone would be insufficient to reverse the JPY's broader weakening trend without a corresponding shift in underlying fundamentals. The JPY subsequently resumed its depreciation over the summer, supporting the trade rationale and encouraging a cautious rebuilding of speculative short JPY positions. At the same time, the AUD benefited from a rebound in commodity prices, with Bloomberg's Commodity Index reaching a fresh year-to-date high at the start of this month. The AUD also drew support from rising natural gas prices amid limited progress towards the full re-opening of the Strait of Hormuz. Furthermore, renewed concerns over potential USD debasement provided a boost for the AUD. Our long AUD/JPY trade recommendation reached its profit target before the recent sharp rebound in the JPY. Unlike previous episodes, the latest appreciation of the JPY appears to have been driven by a shift in fundamentals rather than by intervention, suggesting that the move could prove more sustained.

FX Portfolio

Trade idea	Notional	Entry Date	Entry Level	Current	S/L	Target	Spot P&L	Carry P&L	Portfolio Contribution
Closed Trades									
Long EUR/USD	USD 5mn	10/05/2024	1.0770	1.0840	1.0570	1.1070	32,498	-3,484	29,014
Long MXN/ZAR	USD 5mn	07/06/2024	1.0300	1.0050	1.0050	1.0850	-121,359	1,812	-119,547
Short EUR/JPY	USD 5mn	14/06/2024	168.00	171.10	171.10	162.50	-92,262	-2,194	-94,456
Long AUD/USD	USD 5mn	05/07/2024	0.6735	0.6585	0.6585	0.7035	-111,359	-1,544	-112,903
Long GBP/SEK	USD 5mn	12/07/2024	13.660	13.920	13.360	14.160	95,168	2,149	97,317
Short NZD/CHF	USD 5mn	02/08/2024	0.5170	0.5000	0.5270	0.5000	164,410	-215	164,195
Short NZD/CAD	USD 5mn	09/08/2024	0.8270	0.8430	0.8430	0.8030	-96,735	-1,578	-98,313
Short USD/JPY	USD 5mn	06/09/2024	143.30	142.80	146.30	138.30	17,446	-7,717	9,729
Long AUD/USD	USD 5mn	27/09/2024	0.6890	0.6810	0.6740	0.7100	-58,055	589	-57,466
Long USD/NOK	USD 5mn	11/10/2024	10.720	11.020	10.500	11.020	139,925	530	140,455
Long EUR/USD	USD 5mn	08/11/2024	1.0760	1.0570	1.0700	1.0100	88,290	3,857	92,147
Long USD/CAD	USD 5mn	06/12/2024	1.4090	1.4390	1.3850	1.4550	106,458	1,471	107,194
Long GBP/USD	USD 5mn	10/01/2025	1.2250	1.2550	1.2550	1.1750	-122,449	-885	-123,334
Short EUR/JPY	USD 5mn	07/02/2025	157.60	161.89	163.00	150.00	-171,320	-9,487	-180,807
Long USD/SEK	USD 5mn	14/03/2025	10.120	9.9200	9.9200	10.420	-98,814	5,245	-93,569
Long USD/CAD	USD 5mn	28/03/2025	1.4300	1.4050	1.4050	1.4750	-87,413	1425	-85,988
Long EUR/NZD	USD 5mn	25/04/2025	1.9040	1.9035	1.8700	1.9600	-1,314	-3,305	-4,619
Short USD/JPY	USD 5mn	16/05/2025	145.95	144.00	149.40	138.30	66,804	9,179	57,625
Long USD/ZAR	USD 5mn	13/06/2025	17.910	18.020	17.650	18.350	30,709	- 1,963	28,746
Short USD/NOK	USD 5mn	27/06/2025	10.070	10.060	10.270	9.6000	4,965	104	5,070
Long EUR/GBP	USD 5mn	04/07/2025	0.8625	0.8674	0.8475	0.8850	27,978	-4,894	22,084
Long USD/JPY	USD 5mn	18/07/2025	148.30	147.70	145.70	153.30	-19,335	11,240	-8,095
Long NOK/CHF	USD 5mn	08/08/2025	7.8727	7.9760	7.7520	8.1151	65,607	12,022	77,629
Short USD/JPY	USD 5mn	15/08/2025	147.00	147.80	149.50	143.50	-27,211	-13,990	-41,201
Long NZD/SEK	USD 5mn	12/09/2025	5.5557	5.4449	5.4168	5.6945	-99,717	1,511	-98,206
Short USD/JPY	USD 5mn	07/11/2025	153.40	156.00	156.00	148.50	-84,746	-4,292	-89,038
Long EUR/GBP	USD 5mn	19/09/2025	0.8710	0.8730	0.8550	0.8900	11,481	-15,091	-3,610
Short CAD/CHF	USD 5mn	03/10/2025	0.5705	0.5765	0.5825	0.5525	-53,041	-16,310	-69,351
Long AUD/GBP	USD 5mn	12/12/2025	0.4980	0.5200	0.4980	0.5280	220,884	-1,297	219,587
Long EUR/JPY	USD 5mn	12/01/2026	184.50	181.50	181.50	190.00	-81,301	4,384	-76,917
Short EUR/USD	USD 5mn	09/03/2026	1.1570	1.1750	1.1750	1.1300	-105,877	5,936	-99,942
Long AUD/SEK	USD 5mn	11/05/2026	6.6850	6.6640	6.5700	6.8950	-15,609	7,665	-7,944
Short GBP/CHF	USD 5mn	30/03/2026	1.0600	1.0670	1.0800	1.0200	-32,994	-21,659	-54,603
Long USD/NOK	USD 5mn	19/06/2026	9.6900	9.8500	9.5000	10.100	82,559	-728	81,832
Long EUR/GBP	USD 5mn	17/07/2026	0.8500	0.8575	0.8395	0.8700	44,118	-3,053	41,065
Short USD/BRL	USD 5mn	10/07/2026	5.1150	5.1900	5.2600	4.9600	-73,314	61,095	-12,219
Long AUD/JPY	USD 5mn	07/08/2026	111.20	114.50	109.20	114.50	148,381	6,286	154,667
New Trades									
Short EUR/JPY	USD 5mn	04/09/2026	181.40		184.40	176.00			

Source: MUFG GMR; Changes in stops/targets in bold italics. (1) Current levels reflect intraday pricing. (2) The portfolio represents hypothetical, not actual, investments. Furthermore, we do not actively manage these hypothetical positions on a daily basis and changes tend to be made only through this publication on a weekly basis. To reflect the level of conviction of our trades we run trades in two different amounts: High conviction trades = USD 10mn & Basic conviction trades = USD 5mn

FX Positioning

The Commodity Futures Trading Commission (CFTC) publish weekly reports revealing positioning for the following currencies: AUD, BRL, CAD, CHF, EUR, GBP, JPY, MXN, NZD, RUB, USD (implied) and ZAR. We have applied z-scores to the positioning data to provide a signal of how stretched current positions are compared to averages over the last two years.

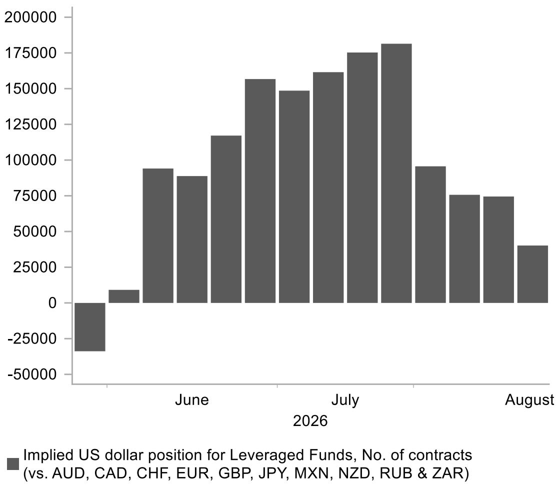
BREAKDOWN BY INVESTORS

Asset Manager/Institutional		
	No. of contracts	Z-Score
AUD	-45,427	-0.61
BRL	48,879	0.17
CAD	-58,943	0.16
CHF	-28,655	0.89
EUR	261,426	-0.42
GBP	-104,491	-0.91
JPY	-20,116	-0.88
MXN	68,590	1.25
NZD	430	1.53
USD	-138,020	0.02
ZAR	16,327	0.69

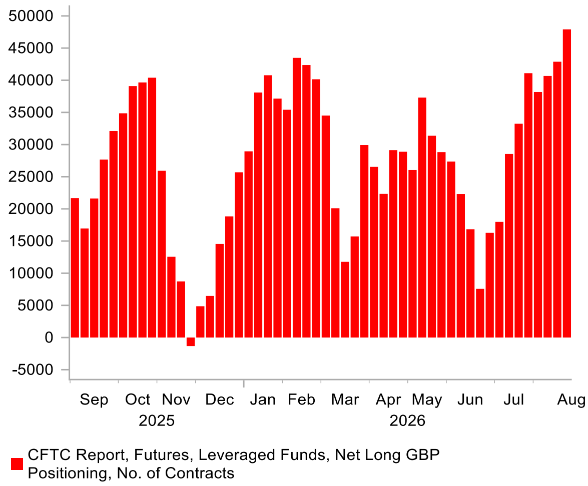
Leveraged Funds		
	No. of contracts	Z-Score
AUD	54,061	1.45
BRL	14,713	1.47
CAD	-72,092	-0.66
CHF	-8,825	-0.57
EUR	-38,359	-1.41
GBP	47,909	0.97
JPY	-77,042	-1.09
MXN	68,904	1.50
NZD	-31,994	-2.21
USD	40,192	-1.13
ZAR	2,533	0.11

Asset Manager/ Insitutional & Leveraged Funds		
	No. of contracts	Z-Score
AUD	8,634	0.50
BRL	63,592	0.51
CAD	-131,035	-0.05
CHF	-37,480	1.97
EUR	223,067	-0.72
GBP	-56,582	-0.51
JPY	-97,158	-1.06
MXN	137,494	1.54
NZD	-31,564	0.24
USD	-97,828	-0.35
ZAR	18,860	0.70

USD LONGS SCALED BACK



GBP LONGS AT MULTI-YEAR HIGHS



Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 25th August 2026)

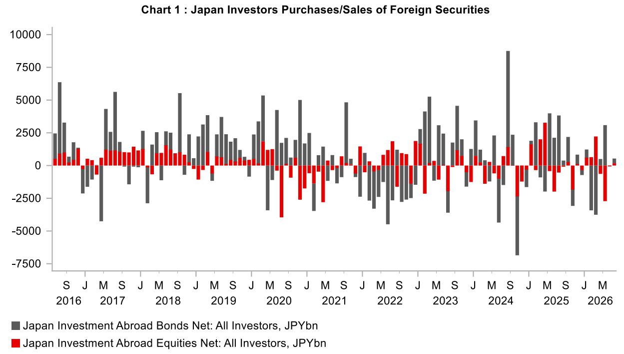
Key Takeaways:

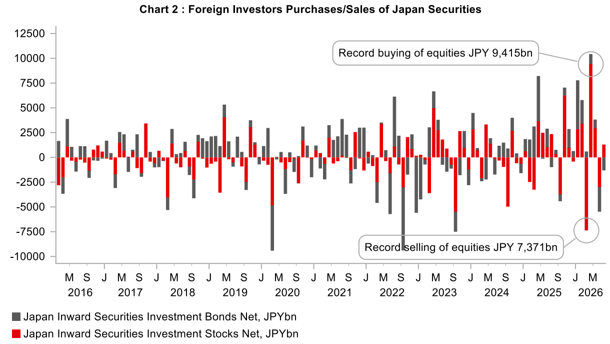
- The latest IMM positioning data for the week ending 25th August showed that leveraged funds reduced long USD positions for a fourth consecutive week ahead of the Jackson Hole symposium. Confidence in the USD appears to have been undermined by the US Treasury's plans to increase long-term bond buybacks in an effort to limit upward pressure on yields, contributing to renewed concerns over potential USD debasement. The largest net long USD positions continued to be held against the JPY, CAD, and EUR. In contrast, leveraged funds maintained net short USD positions against the MXN, AUD, and GBP, underscoring the continued appeal of higher-yielding and commodity-linked currencies in the current market environment.

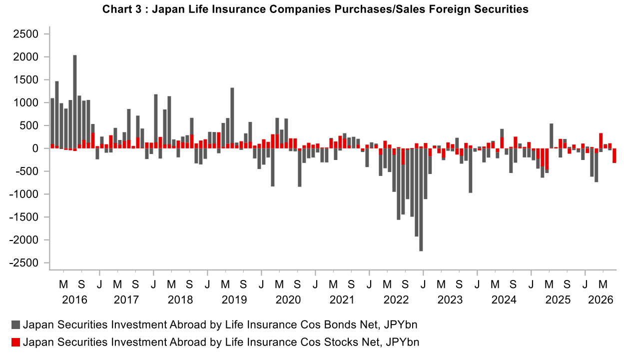
- The largest weekly changes in leveraged fund positioning were: (i) an decrease in short CAD positions of 16,805 contracts; (ii) a decrease in short EUR positions of 19,357 contracts; and (iii) an increase in short JPY positions of 9,071 contracts. Short JPY positions have been tentatively rebuilt since joint intervention in late July.

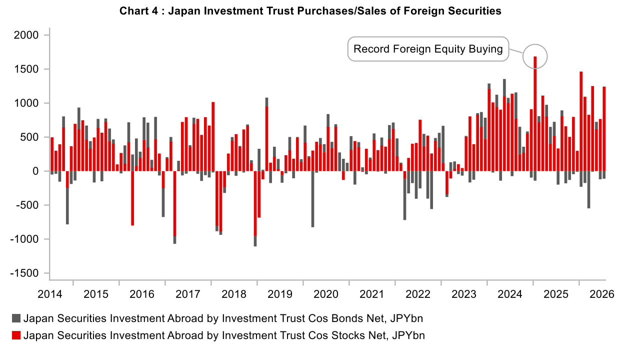
- Our positioning z-score analysis indicates that short NZD positions were the most stretched relative to their respective ranges over the past two years.

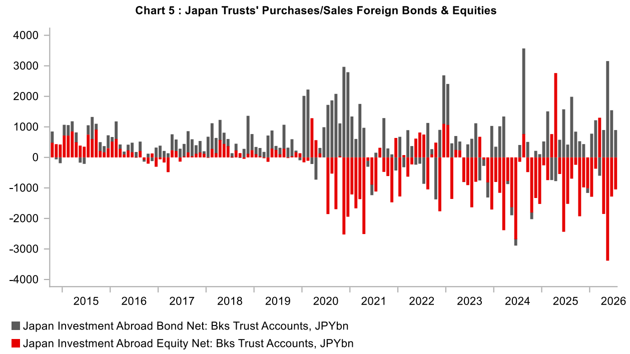
JPY Flows – Portfolio & by investor type

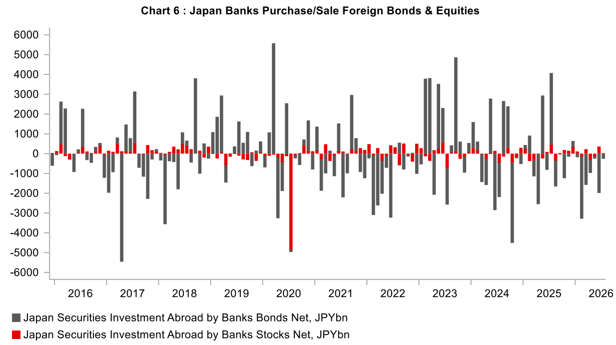












Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- The Transactions in International Securities data for July remains the latest available and Chart 1 shows that on a net basis across the different investor types the flows were quite modest again with foreign bond purchases totalling just JPY 366bn and followed net sales of just JPY 18bn in June. Foreign equity buying was JPY 170bn in July following net sales of JPY 51bn in June. So a very subdued total net flow over June and July although the sector-by-sector data was a bit more interesting. Chart 2 looks at the flows from foreign investors and while more subdued in July relative to previous months was more sizeable. Foreign investors sold JPY 1,317bn worth of Japan bonds and bought JPY 1,298bn worth of Japanese equities. The flow into Japanese equities has been impressive this year. On a year-to-date basis foreign investors have bought JPY 9,513bn worth, the largest total over that period since the same period in 2013 following the launch of Abenomics and aggressive BoJ monetary easing. Japan bond buying on a year-to-date basis totalled JPY 6,033bn

- Chart 3 highlights more active selling of foreign equities totalling JPY 311bn, which was the largest selling since April 2025 when Liberation Day tariffs were announced causing a surge in global equity market volatility. Foreign bond sales were very modest at just JPY 11bn. Chart 4 shows Investment Trust flows – which captures the households NIS flows that have picked up markedly since the NISA limits were expanded in January 2024. The latest data shows strong buying of foreign equities – in July the total was JPY 1,243bn. On a year-to-date basis, purchases totalled JPY 7,261bn, up from JPY 5,567bn in the same period last year. Since the NISA expansion Investment Trusts have bought just short of JPY 26 trillion of foreign equities.

- Chart 5 shows Japan Trust flows that would capture GPIF and other pension flows. There is as of yet little sign of outright sales of foreign assets and the flow data continue to suggest asset switching is ongoing – from foreign equities into foreign bonds.

FX Weekly Options Flow Report

This week's analysis applies a DTCC-based framework to assess whether market participants are expressing directional fear through elevated put demand or seeking asymmetric upside exposure via call structures. Using DTCC trade data sourced through Bloomberg, which aggregates global FX options activity across reporting counterparties, the focus is on positioning in USD/JPY, EUR/USD, and GBP/USD. Because DTCC data reflects reported transactions rather than live quotes, it serves as a near-term proxy for aggregate market positioning rather than a real-time signal.

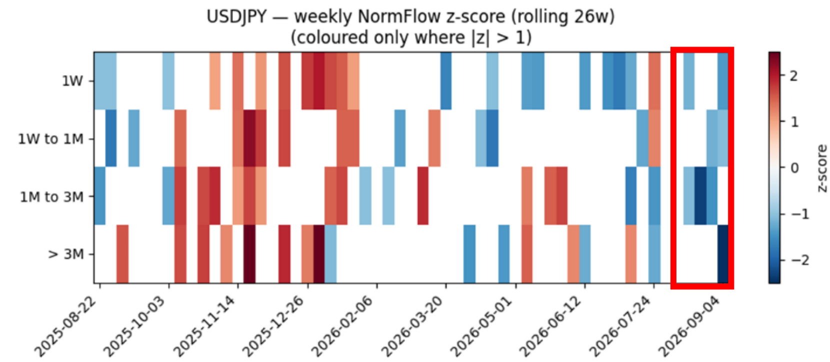
DTCC OPTIONS FLOW

DTCC options flow provides different perspective on FX positioning because it captures trades at execution, often before options prices fully adjust. Trades executed by market participants establish positions ahead of central bank meetings, inflation releases and other macro catalysts. Risk reversals the more common approach to monitoring directional sentiment reflects the price of protection, but flow data reveals the demand driving those adjustments. Persistent divergences between flow and pricing can therefore highlight emerging positioning trends and shifts in investor behaviour before they become fully embedded in market valuations.

FX OPTIONS FLOW HEATMAP

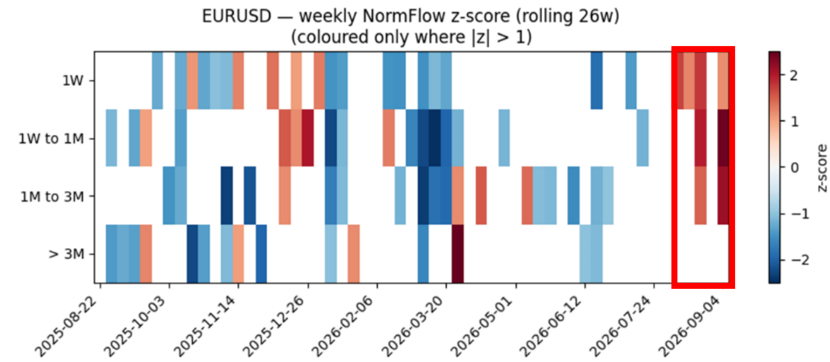
The FX options-flow heatmap is a visual tool that shows how call and put demand is shifting across different expiry buckets over time, using colour intensity to highlight statistically significant changes in positioning. It is one of the clearest ways to see where the market is concentrating its hedging pressure. The maps only include z-scores are greater/less than 1.

USD/JPY options activity points to investors positioning for a stronger JPY over short and longer periods.



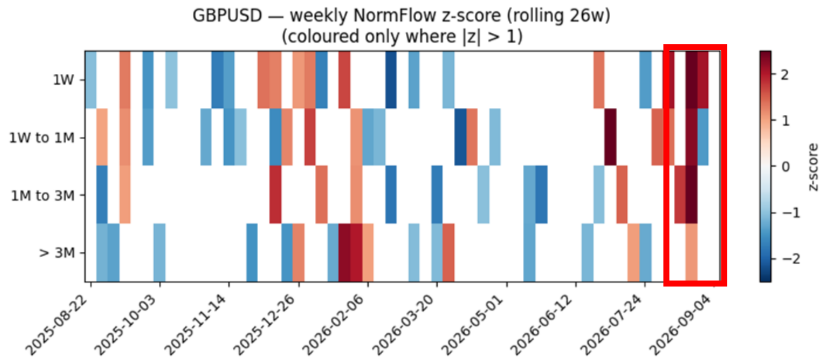
Source: Macrobond, Bloomberg & MUFG Research

Renewed preference for EUR upside exposure



Source: Macrobond, Bloomberg & MUFG Research

Mixed flows for GBP this week flow direction fell below our threshold

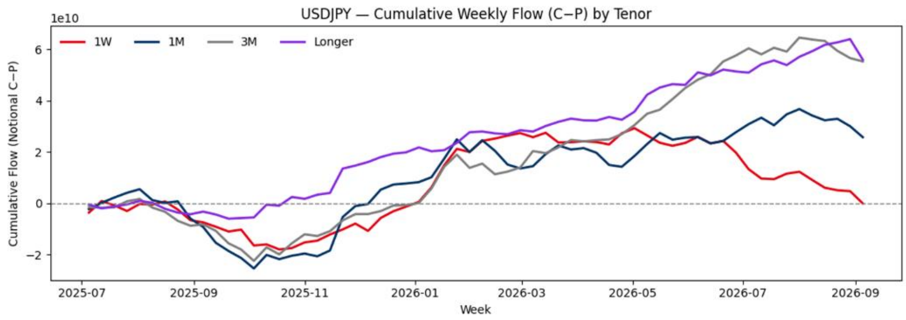


Source: Macrobond, Bloomberg & MUFG Research

CUMUALTIVE WEEKLY FLOW

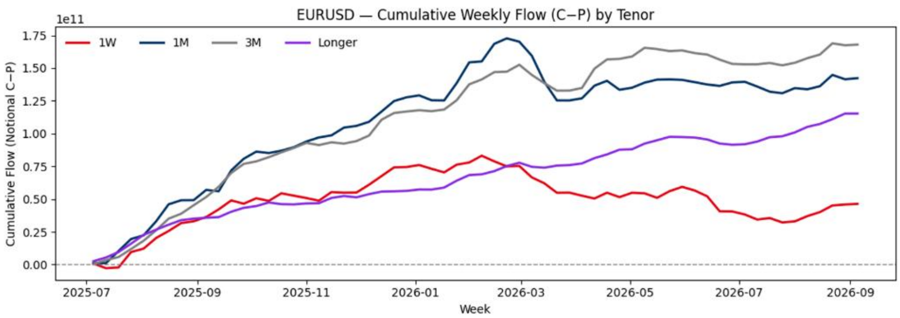
While weekly flow highlights changes in positioning activity, cumulative flow provides a clearer picture of how positions are building over time. Persistent cumulative demand for calls or puts can signal the emergence of longer-term market themes that may be obscured by short-term volatility in weekly data. We use cumulative flow to assess whether periods of elevated hedging demand reflect temporary responses to geopolitical events and macro catalysts, or a more structural shift.

Cumulative flow shows growing demand most apparent in the shorter tenors for JPY



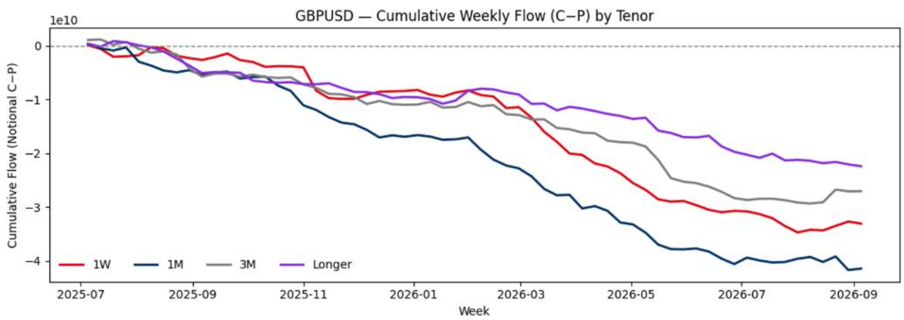
Source: Macrobond, Bloomberg & MUFG Research

EUR demand broad based as cumulative flow rises across all tenors



Source: Macrobond, Bloomberg & MUFG Research

GBP upside protection most apparent in shorter tenors



Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- USD/JPY: Several factors could explain the recent increase in JPY demand across the curve. Most notably, expectations of further BoJ policy normalization have continued to support the medium-term outlook for the yen. The flow suggests investors are increasingly positioning for a stronger yen over both short and longer periods.

- EUR/USD: Options activity suggests a renewed EUR upside exposure. Following the put-heavy flow environment that characterized March and April (energy terms of trade shock), positioning has shifted notably in favor of EUR calls, particularly in the 1W-1M and 1M-3M sectors, where demand is now well above its respective 26-week average.

- GBP/USD: Options activity has become more supportive of GBP in recent weeks, however this week's flow appears non directional as it falls below our threshold. Prior call demand has been concentrated primarily in shorter-dated maturities, particularly the 1W and 1W-1M sectors, where activity has remained above its 26-week average.

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