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LEE HARDMAN
Senior Currency Analyst

Global Markets Research
Global Markets Division for EMEA
T: +44 (0)20 7577 1968
E: lee.hardman@uk.mufg.jp

ABDUL-AHAD LOCKHART
Currency Analyst

Global Markets Research
Global Markets Division for EMEA
T: +44 (0)20 7577 1183
E: abdul-ahad.lockhart@uk.mufg.jp

Research Portal:
Global Markets Research - MUFG Research

Fed rate hike speculation fails to strengthen USD

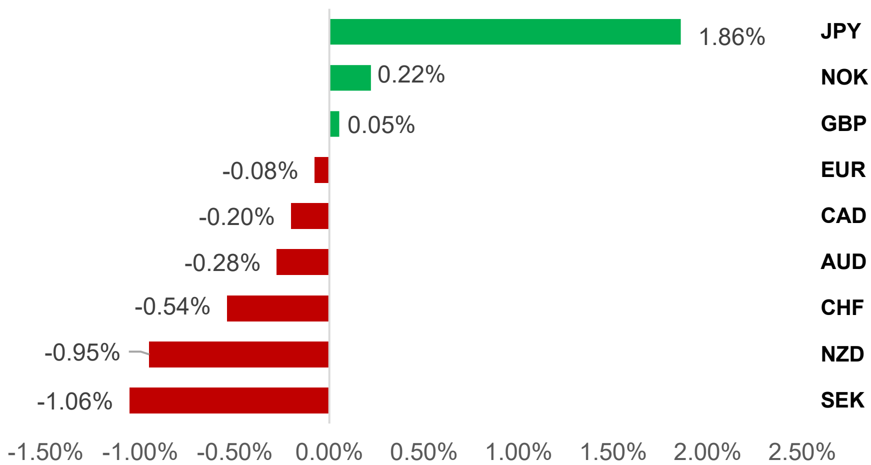
FX View: The JPY has been the best performing G10 currency over the past week extending its recent rebound after USD/JPY failed to break back above 160.00 at the start of this month. The stronger JPY has been encouraged by expectations that the BoJ will speed up the pace of rate hikes in the week ahead. A 25bps hike is already almost fully priced. For the JPY to strengthen further the BoJ will have to signal that they are planning to stick to the faster pace of hikes. At the same time, rate hike expectations have been building for other major central banks. The Fed is now more likely to begin hiking rates in the week ahead after stronger US inflation data. The USD has failed to strengthen over the past week, and remains at softer levels since the US Treasury announced the expanded buyback programme for long-term bonds in August. The unfavourable price action may reflect lingering concerns that the Fed is too slow to tighten policy and lags behind other major central banks. If the Fed does not follow through with a hike in the week ahead it could trigger a deeper USD sell-off undermining policy credibility.

Trade Ideas: We are maintaining our short EUR/JPY trade idea.

IMM FX Positioning: The latest IMM positioning data revealed that leveraged funds had sharply increased short JPY positions ahead of the recent rebound. A short squeeze has likely reinforced the JPY's upward momentum this month.

ECB Conference Sentiment Analysis: ECB rhetoric remains firmly inflation-focused, with recent communications consistent with a conditional hawkish bias and further tightening risk.

JPY CONTINUES TO REBOUND AHEAD OF BOJ POLICY MEETING



Source: Bloomberg, close on 11th September 2026 (Weekly % Change vs. USD)

USD: Will Fed policy update prove sufficient to reverse recent sell-off?

Recent bond market sell-off driven mainly by hawkish repricing of central bank rate hike expectations in response to rising energy prices

The big focus in financial markets over the past week has been the accelerating sell-off in global bond markets driven primarily by the short end of the curve. Looking at the recent performance of major global bond markets in the Germany, Japan, the UK and US, the average yield on 2-year bonds has increased by around 18bps extending the advance since the lows in June to almost 60bps. Yields have also increased at the longer end of the curve but to a lesser extent. Higher energy prices are encouraging the hawkish repricing of short-term rates. The price of Brent and natural gas in Europe have increased by around 50% and 100% respectively since the low points in June. The unfavourable energy price developments will make it more difficult for central banks to look through the energy price shock. Energy supplies through the Strait if Hormuz have been disrupted for over six months now with hopes dwindling for flows to normalize in the near-term.

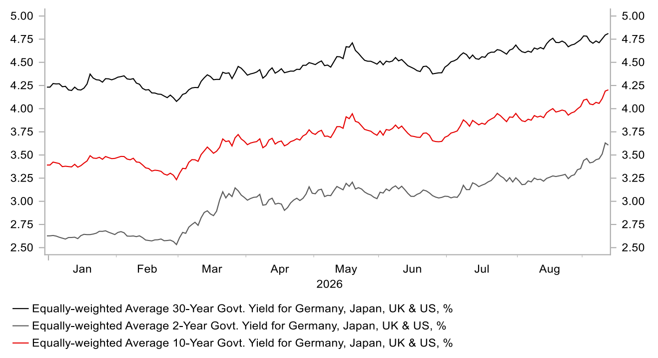
Modest spillovers into FX market so far. JPY continues to strengthen on back of expectations for faster BoJ hikes. Recent gains could reverse if BoJ fails to signal faster pace will continue.

So far the spillovers into the FX and equity markets from the bond market sell-off have only been modest. Over the past week, FX price action has been consistent with more risk-off trading. The SEK, NZD and AUD have underperformed while the JPY has been the best performer. The JPY has extended its recent rebound after USD/JPY broke below important support at the 155.00-level, and encouraged by comments from US Treasury Secretary Scott Bessent indicating that the US Treasury's recent decision to intervene to support the JPY was backed-up by inside information over potential policy changes in Japan. One policy change we expect in the week ahead will be a faster pace of BoJ rate hikes. Rhetoric from BoJ officials has become noticeably more hawkish since joint US-Japan intervention to support the JPY in at the start of the summer setting up a hike next week. If delivered next week the gap from the last hike would have been three months marking a step up in pace from prior six months gap. A 25bps hike next week is already almost fully priced in, and another year-end. Market participants will be washing closely to see if the BoJ signals that the faster pace of hikes will continue. If the BoJ disappoints, it could trigger a reversal of the JPY's recent rebound. Our own forecast (click here) is for three hikes by the middle of next year.

Yields have been rising more outside of the US dampening support for USD from building Fed rate hike expectations. Resilience of global growth is working against USD.

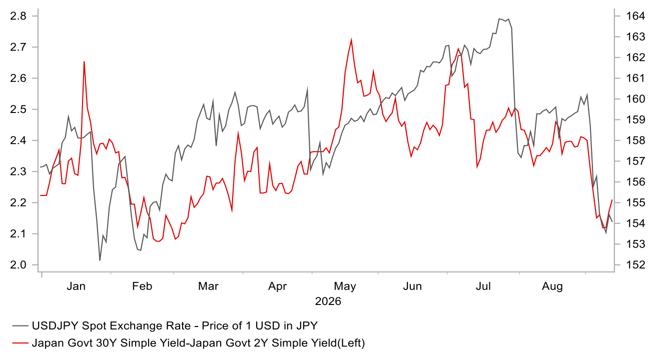
Unlike the JPY, the USD has underperformed recently even as the US rate market has moved to price in more Fed hikes. There are a couple of reasons why the USD has failed to strengthen on the back of rising US yields. One is that the US yields have risen less than in other major bond markets. The hawkish repricing of ECB and BoJ rate hike expectations has more than offset building expectations for Fed hikes resulting in short-term yield spreads moving against the USD. The ECB delivered a second hike this week in response to higher energy prices, and signalled that the tightening cycle is likely to extend further. The surprising resilience of growth in Europe

BOND MARKET SELL-OFF MOST INTENSE AT SHORT-END



Source: Bloomberg, Macrobond & MUFG

LESS CONCERN BOJ IS BEHIND THE CURVE?



Source: Bloomberg, Macrobond & MUFG GMR

to the energy price shock, and higher energy prices more in line with the ECB's adverse scenario are increasing pressure on the ECB to raise rates into restrictive territory by heightening the risk of second round inflation effects. A Bloomberg source report revealed just after the policy meeting confirmed that ECB officials expect to raise rates further, with another increase possible as soon as next month. However, market expectations for three more hikes maybe too aggressive. It fits with our updated forecasts (click here) for two more hikes in October and December that would lift the policy rate to 3.00%. A level we would view as mildly restrictive. Bundesbank President Nagel has also stated that rates "might need to go into "mildly restrictive" territory. The ECB's tightening cycle provides support for the EUR from higher rates as long as economic growth in the euro-zone remains resilient. If evidence begins to emergence of bigger negative terms of trade impact it would increase downside risks for the EUR from the worsening energy price shock.

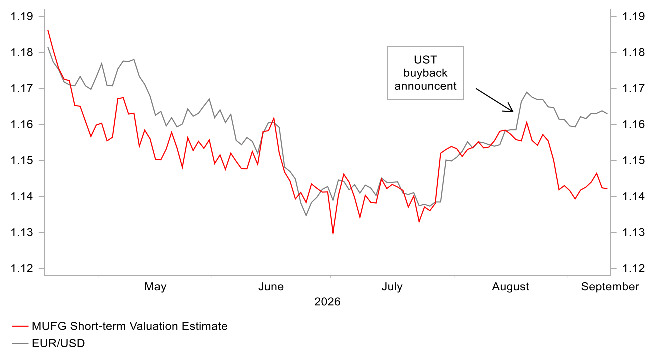
US policymaker unease over rising long-term US yields has undermined confidence in USD. Expanded Treasury bond buybacks continue to weigh on USD amidst upside inflation risks.

The second reason why the USD has underperformed recently has been growing unease over attempts from US policymakers to suppress market yields. The USD has remained at weaker levels since the US Treasury announced plans to expand long-term bond buybacks on 19th August. It was followed up this week by the announcement that the first expended buyback back operation would be tripled in size from USD2 billion up to USD6 billion. Long-term US yields initially jumped higher in response indicating some initial disappointment that the bond buyback was not even bigger. We have estimated a ballpark figure that expanded bond buybacks over a one-year period could total just over USD200 billion assuming the Treasury continues to hold nine operation/quarter and buys up to USD6 billion/operation. However, this is highly uncertainty as it is unclear how long expanded bond buyback will continue and the size of the operation could still be increased further if desired. It compares to long-term debt issuance of USD231 billion in both the current and previous quarter. The expanded Treasury buybacks play into fiscal dominance fears, and have triggered renewed interest in USD debasement (click here) trades over the summer.

If the Fed fails to kick-off rate hike cycle in week ahead it would leave the USD vulnerable to bigger sell-off. While a hike would prove more support, upside could be curtailed if doubts remain over willingness to raise rates much further.

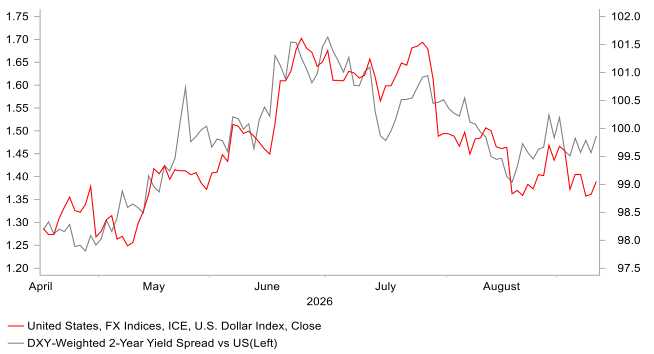
One way to help ease those concerns would be for the Fed to finally take action to tighten monetary policy in response to upside inflation risks. After stronger US inflation data this week and rising energy prices, market participants have become more confident that the Fed will hike rates in the week ahead. It would provide some much-needed support for the USD although may not prove sufficient on its own to trigger a significant rebound. If doubts remain over how much further the Fed is willing to hike rates in the near-term given the close proximity of the US mid-term elections in November, it could curtail USD upside. On the other hand, if the Fed decides to leave rates on hold again to by more time to assess policy, it could trigger a sharper USD sell-off by fuelling fears that they are falling behind the curve in fighting inflation.

EXPANDED UST BOND BUYBACKS UNDERMINED USD



Source: Bloomberg, Macrobond & MUFG

FED HIKES WOULD RESTORE CONFIDENCE IN USD



Source: Bloomberg, Macrobond & MUFG GMR

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
JPY	14/09/2026	05:30	Industrial Production MoM	Jul F	--	0.1%	!!
SEK	14/09/2026	07:00	CPI YoY	Aug F	--	0.3%	!!
CAD	14/09/2026	13:30	CPI YoY	Aug	--	3.0%	!!!
GBP	15/09/2026	07:00	Payrolled Employees Monthly Change	Aug	--	-13k	!!!
EUR	15/09/2026	10:00	Germany ZEW Survey Expectations	Sep	--	34.2	!!
EUR	15/09/2026	10:00	Trade Balance SA	Jul	--	1.8b	!!
JPY	16/09/2026	00:50	Trade Balance	Aug	-¥1077.9b	-¥638.3b	!!
GBP	16/09/2026	07:00	CPI YoY	Aug	--	2.9%	!!!
SEK	16/09/2026	07:00	Unemployment Rate SA	Aug	--	8.6%	!!
GBP	16/09/2026	07:00	PPI Output NSA YoY	Aug	--	3.1%	!!
EUR	16/09/2026	09:00	ECB Wage Tracker				!!
EUR	16/09/2026	10:00	Industrial Production SA MoM	Jul	--	0.0%	!!
USD	16/09/2026	13:30	Import Price Index MoM	Aug	--	-0.4%	!!
USD	16/09/2026	13:30	Retail Sales Advance MoM	Aug	0.8%	-0.6%	!!!
CAD	16/09/2026	18:30	Bank of Canada Summary of Deliberations				!!
USD	16/09/2026	19:00	FOMC Rate Decision (Upper Bound)		4.00%	3.75%	!!!
NZD	16/09/2026	23:45	GDP SA QoQ	2Q	0.1%	0.8%	!!!
EUR	17/09/2026	10:00	CPI YoY	Aug F	--	3.3%	!!
GBP	17/09/2026	12:00	Bank of England Bank Rate		3.75%	3.75%	!!!
EUR	17/09/2026	13:15	ECB's Lane Speaks in Frankfurt				!!
USD	17/09/2026	13:30	Initial Jobless Claims		--	--	!!
USD	17/09/2026	13:30	Housing Starts	Aug	1315k	1239k	!!
AUD	18/09/2026	00:30	RBA's Bullock-Testimony				!!
JPY	18/09/2026	00:30	Natl CPI YoY	Aug	2.0%	1.9%	!!!
JPY	18/09/2026	Tbc	BOJ Target Rate		1.25%	1.00%	!!!
GBP	18/09/2026	07:00	Retail Sales Inc Auto Fuel MoM	Aug	--	-0.5%	!!
USD	18/09/2026	14:15	Industrial Production MoM	Aug	0.3%	0.2%	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- It will be an important week for central bank policy decisions, with the Fed's upcoming meeting appearing the most finely balanced. The Fed is now expected to hike rates after stronger inflation data this week, although it is not a done deal. Fed Chair Kevin Warsh's speech at Jackson Hole indicated that the Fed would tighten policy if confidence in inflation returning to target were to diminish, but he stopped short of signaling that a rate hike would be required as soon as this month. At the same time, higher energy prices over the summer have increased pressure on the Fed to tighten policy. The Fed is also likely to refrain from providing strong forward guidance, contributing to heightened uncertainty over the policy outlook.

- The BoE is expected to leave rates unchanged again in the week ahead, although there could be further evidence that MPC members are moving closer to supporting tighter policy. At the July meeting, the MPC voted 6-3 in favour of keeping rates on hold, with Catherine Mann joining Megan Greene and Chief Economist Huw Pill in voting for a rate hike. We expect a similar voting split this month, although the updated communication may signal a greater willingness to tighten policy if higher energy prices persist. The BoE will also announce updated plans for balance sheet reduction. We expect the annual pace of QT to be slowed from GBP70 billion to GBP50 billion, while active gilt sales remain unchanged at GBP20 billion.

- The BoJ is expected to accelerate the pace of policy tightening by delivering another 25bps rate hike at its upcoming meeting. If delivered, the move would mark a step up in the tightening cycle, coming just three months after the previous hike in June compared with the six-month gap between the prior two rate increases. Recent hawkish communication from BoJ officials has strongly signalled that a further hike is warranted in response to growing risks of an inflation overshoot. A 25bps move is now almost fully priced in, meaning investors will focus primarily on whether the BoJ signals that the faster pace of tightening is likely to continue, leaving the door open to at least one additional hike before year-end.

Open Trade Ideas

SHORT EUR/JPY – **OPENED** @ 181.30 (TARGET @ 176.00 & STOP-LOSS @ 184.30)

Downside risks are increasing for deeper correction lower after key support level is broken

We are maintaining our short EUR/JPY trade idea. The JPY has continued to rebound over the past week. The JPY gained upward momentum after EUR/JPY broke below key support at 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 has increased the risk of a deeper correction lower for EUR/JPY. However, rising energy prices remain a headwind for the JPY. On the other side of the cross, the ECB's hawkish policy update and expectations for more hikes have failed to prevent EUR/JPY from adjusting lower.

MUFG

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	181.30	178.00	184.30	186.30	91,009	862	90,148

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.

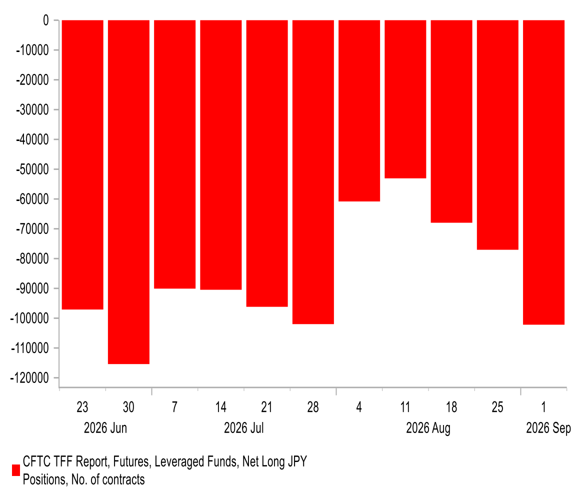
BREAKDOWN BY INVESTORS

Asset Manager/Institutional		
	No. of contracts	Z-Score
AUD	-30,467	-0.11
BRL	48,734	0.15
CAD	-49,544	0.32
CHF	-32,117	0.52
EUR	263,253	-0.38
GBP	-107,333	-0.96
JPY	-24,521	-0.94
MXN	68,077	1.21
NZD	2,959	1.65
USD	-156,353	0.02
ZAR	17,312	0.87

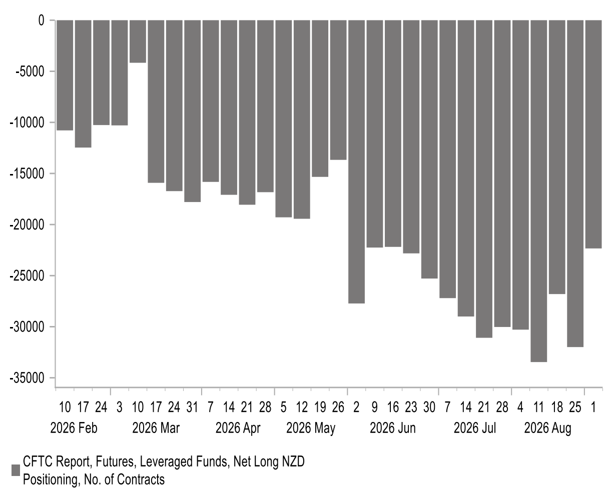
Leveraged Funds		
	No. of contracts	Z-Score
AUD	49,662	1.29
BRL	16,046	1.59
CAD	-68,750	-0.49
CHF	-10,298	-0.81
EUR	-38,173	-1.38
GBP	43,167	0.65
JPY	-102,188	-1.73
MXN	74,362	1.64
NZD	-22,338	-1.26
USD	56,494	-1.13
ZAR	2,016	0.01

Asset Manager/ Insitutional & Leveraged Funds		
	No. of contracts	Z-Score
AUD	19,195	0.68
BRL	64,780	0.53
CAD	-118,294	0.12
CHF	-42,415	2.39
EUR	225,080	-0.69
GBP	-64,166	-0.64
JPY	-126,709	-1.39
MXN	142,439	1.60
NZD	-19,379	0.76
USD	-99,859	-0.35
ZAR	19,328	0.75

REBUILDING JPY SHORTS



SCALING BACK NZD SHORTS



Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 1st September 2026)

Key Takeaways:

- The latest IMM positioning data for the week ending 1st September showed that leveraged funds increased long USD positions modestly bringing an end to four consecutive weeks of USD selling. Confidence in the USD appears to have improved tentatively after Fed Chair Kevin Warsh's hawkish speech at Jackson Hole. The largest net long USD positions continue to be held against the JPY and CAD. 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.

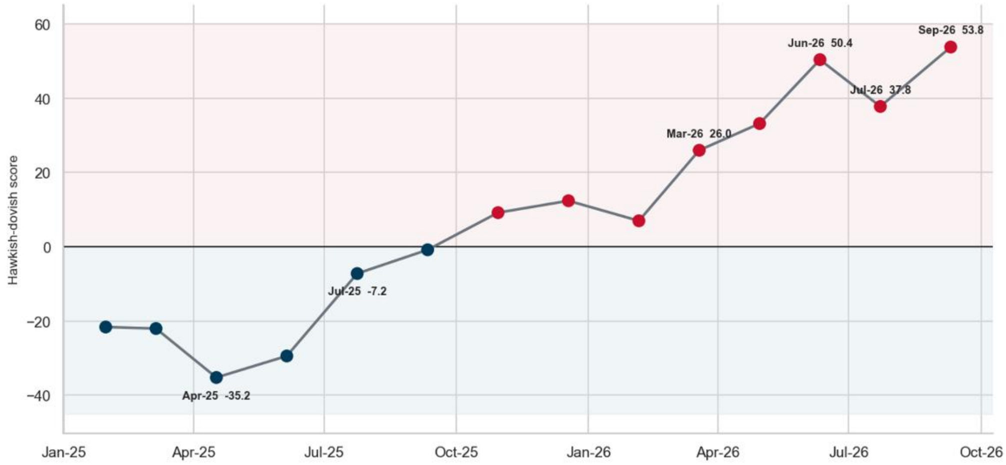
- The largest weekly changes in leveraged fund positioning were: (i) an increase in short JPY positions of 25,146 contracts; (ii) a decrease in short NZD positions of 9,656 contracts; and (iii) a decrease in long GBP positions of 4,742 contracts. It suggests that the recent JPY rebound has likely been reinforced by a short squeeze.

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

ECB Conference Sentiment analysis

This report presents the latest findings from our ECB conference sentiment analysis, a systematic Natural Language Processing (NLP) framework that uses AI to analyse ECB press conference transcripts. The framework decomposes each communication into economically relevant policy dimensions, including inflation persistence, labour markets, growth and energy shocks. Each category is assigned a score based on predefined rules and weights, allowing the overall communication stance to be converted into a single Hawkish-Dovish Index. Our objective is to measure how the ECB's reaction function is evolving through its own language, scoring communications consistently over time, the framework helps identify shifts in policy priorities that may not be immediately visible through conventional qualitative analysis.

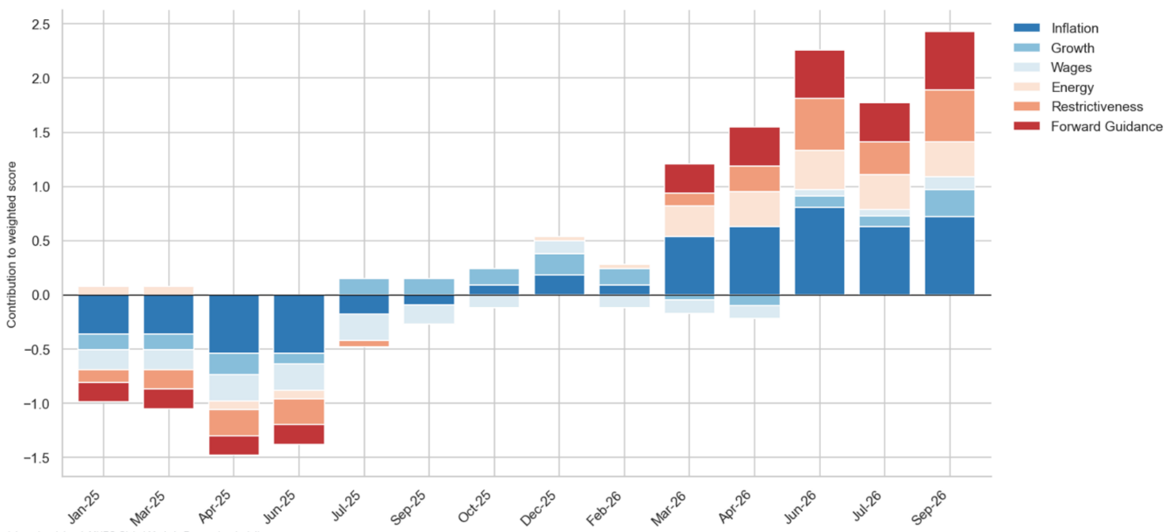
HAWKISH-DOVISH INDEX



Source: Bloomberg, Macrobond & MUFG GMR

Our ECB Hawkish-Dovish Index rose to +54 in September 2026, its highest reading since the series began in January 2025. The latest reading captures a substantial change in the immediate balance of policy risks. The increase largely reflects the ECB's response to an external energy shock and the resulting rise in inflation risks. The latest communication from the ECB continues to emphasise that decisions will be taken meeting by meeting and has not pre-committed to further rate increases.

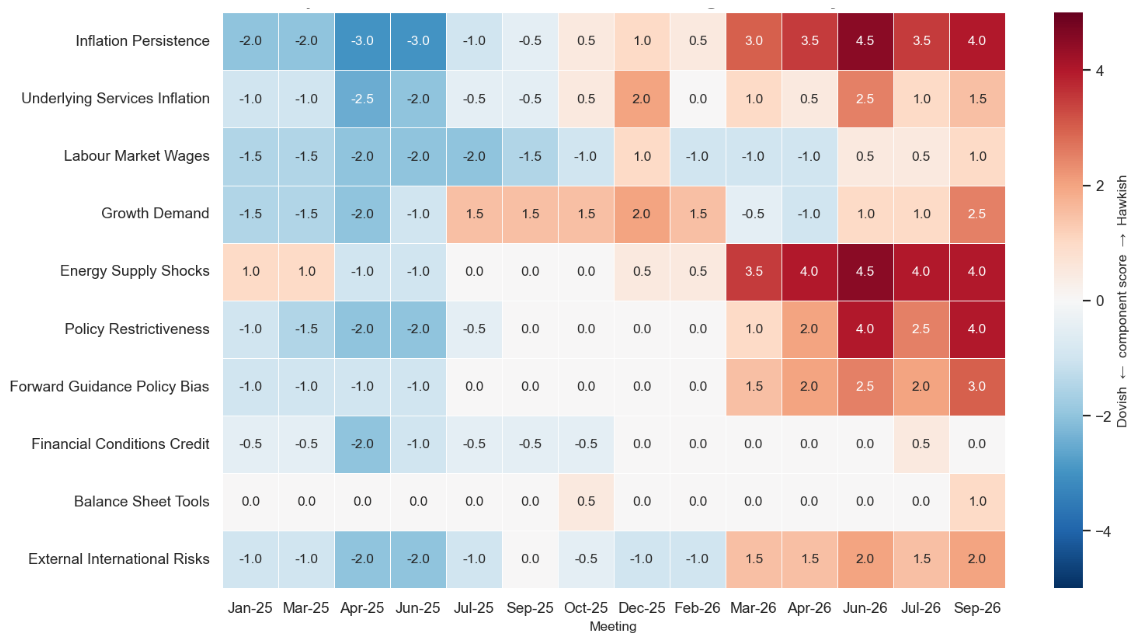
DRIVERS



Source: Bloomberg, Macrobond & MUFG GMR

The latest reading is notable because the hawkish signal is broad-based rather than concentrated in a single category. Inflation persistence remains the largest contributor to the overall score. Recent ECB communications continue to emphasise domestic inflation pressures and the risk that inflation may not return sustainably to target as quickly as anticipated. Energy has become one of the most hawkish components in the framework. Policymakers increasingly discuss energy developments as a source of medium-term inflation risk and potential second-round effects rather than purely a drag on economic activity. The ECB continues to emphasise the importance of maintaining restrictive monetary conditions. Recent communications suggest policymakers remain focused on ensuring inflation convergence rather than supporting near-term growth. Forward guidance remains firmly positive. The ECB continues to communicate caution towards easing expectations and appears reluctant to endorse a rapid reduction in policy restraint.

COMPOSITION HEAT MAP



Source: Bloomberg, Macrobond & MUFG GMR

The heat map provides insight into how the ECB's policy narrative has evolved over time. The latest communications highlight four categories now stand out as consistently hawkish; Inflation Persistence, Energy Supply Shocks, Policy Restrictiveness and Forward Guidance. The simultaneous strength of these categories suggests that the ECB's communication framework has undergone a meaningful shift since 2025. Policymakers appear focused on managing residual inflation risks and ensuring inflation convergence is sustained. This is also evident in an increase in hawkish growth worries, where demand is resilient or stronger than expected meaning growth allows the ECB to increase tightening.

Key Takeaways:

- September's reading of +54 (/100) is the most hawkish in our sample and reflects the combination of elevated inflation persistence scores, increasing concern over energy-related inflation risks, continued emphasis on policy restrictiveness and a more hawkish forward-guidance.
- The underlying composition remains broadly consistent with a Governing Council that continues to prioritise inflation risks over growth concerns. Inflation persistence, energy shocks and policy restrictiveness all remain near the upper end of their historical ranges within our sample. The ECB continues to emphasise a meeting-by-meeting approach, and much of the recent hawkish shift has been driven by the inflation implications of the energy shock. Our framework therefore suggests a conditional hawkish bias, rather than a commitment to a fixed policy path.
- The latest communication backdrop appears broadly consistent with market pricing, OIS markets are currently pricing between 1-2 hikes by year-end, reflecting investor expectations that inflation risks may prove more persistent than previously anticipated. While our framework does not forecast policy decisions, the persistence of the recent communication shift suggests that additional tightening remains on the table should inflation and energy-driven price pressures fail to moderate.

London:

MR DEREK HALPENNY
Head of Research, Global Markets EMEA
& International Securities
T: +44 (0)20 7577 1887

MR LEE HARDMAN
Senior Currency Analyst
T: +44 (0)20 7577 1968

MR ABDUL-AHAD LOCKHART
Currency Analyst
T: +44 (0)20 7577 1183

MS MOMOKO MIYACHI
Research Assistant
T: +44 (0)20 7577 1886

Hong Kong:

MS LIN LI
Head of Global Markets Research Asia
T: +852 2862 7005

MR KHANG SEK LEE
Associate
T: +852 2862 7838

New York:

MR GEORGE GONCALVES
Head of US Macro Strategy
T: +1-212- 405-6687

Dubai:

MS SOOJIN KIM
Analyst
T: +971 (0)4 387 5031

Tokyo

MR TEPPEI INO
Tokyo Head of Global Markets Research
T: +81 (0) 50-3842-1288

MS SUMINO KAMEI
Senior Analyst
T: +81 (0) 50-3842-1289

MR AKIHIKO YOKOO
Senior Analyst
T: +81 (0) 50-3842-8809

MR TERUMASA KAWAKAMI
Analyst
T: +81 (0) 50-3843-6702

MS SAKURA KOIKE
Analyst
T: +81 (0) 50-3842-2259

MR TOSHIYUKI SUZUKI
Global Market Economist
T: +81 (0) 3 6214 4148

Singapore:

MR MICHAEL WAN
Senior Currency Analyst
T: +65 6918 5537

MR LLOYD CHAN
Senior Currency Analyst
T: +65 6918 5536

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