# Foreign Exchange Outlook

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## KEY EVENTS IN THE MONTH AHEAD

### 1) WILL FIXED INCOME SELL-OFF SPREAD?

The US dollar (DXY basis) advanced by 2.0% in September with the US leading the way on a substantial sell-off in fixed income. The 10-year UST bond yield increased 53bps in September, the largest one-month increase since September 2022. The 2-year yield jumped by 55bps also the biggest gain since September 2022. Another month of no resolution to reopening the Strait of Hormuz led to a rethink on the timing of a normalisation of supplies of energy, the inflation risks associated with that. Six of the G10 central banks raised rates in September. That prompted a notable pick-up in bond market volatility and if that volatility persists there will be an increased risk of this spreading to other markets. EM FX volatility surged in September, rising toward the peak levels recorded after the start of the Middle East conflict in March. G10 FX volatility has increased much more modestly while the VIX index remains below its 12mth average. Further fixed income selling is the primary near-term risk for the markets and a broadening out of increased volatility would likely see the dollar extend gains. EUR downside risks will be reinforced by OAT selling. The poor fixed income sentiment has led to a sharp widening of the OAT/Bund spread – by 42bps in September. The details of the 2027 budget will be released on 1st October and concerns over an inability to pass the budget could see a further widening of the OAT/Bund spread that would extend EUR/USD further lower closer to the 1.1000-level.

### 2) IMF & CENTRAL BANK MEETINGS IN FOCUS

The IMF/World Bank gathering takes place between 12th-18th October in Bangkok, Thailand and we can assume that this meeting could be used by the US and Japan to reinforce their ongoing collaborations in curtailing yen depreciation. Rhetoric from the government in Japan has been more explicit of late and with the dollar strengthening more broadly, we can expect these meetings to be used to communicate the joint message further. G10 Central bank meetings are bunched close together toward the end of the month. The RBNZ, the Bank of Canada and the Fed all meet on 28th followed by the ECB on 29th and finally the BoJ on 30th. The RBNZ and the BoC is priced as most likely to hike amongst these meetings, followed by the Fed, the ECB and then the BoJ has the least priced. Recent communications point to the RBNZ and the BoC hiking. We now expect the ECB, the BoJ and the Fed to next hike in December.

### 3) MARKETS WATCH FOR CHINA'S BROADER FISCAL EASING

China's key near-term focus is whether policymakers follow September's targeted easing measures, including the mortgage subsidy, PSL rate cut and expanded relending quotas, with larger-scale fiscal stimulus. Markets will closely watch the late-October Politburo meeting and the Fifth Plenum of the 20th CPC Central Committee (26-29 October) for signals on additional growth support, fiscal expansion and the 2027 policy outlook.

# Contents


## MAJORS

| | |
|---|---|
| US dollar | 4–5 |
| Japanese yen | 6–7 |
| Euro | 8–9 |
| Pound sterling | 10–11 |
| Chinese renminbi | 12–13 |
| Australian dollar | 14 |
| New Zealand dollar | 15 |
| Canadian dollar | 16 |
| Norwegian krone | 17 |
| Swedish krona | 18 |
| Swiss franc | 19 |

## EUROPE & S AFRICA

| | |
|---|---|
| Czech koruna | 20 |
| Hungarian forint | 21 |
| Polish zloty | 22 |
| Romanian leu | 23 |
| Russian rouble | 24 |
| South African rand | 25 |
| Turkish lira | 26 |

## ASIA

| | |
|---|---|
| Indian rupee | 27 |
| Indonesian rupiah | 28 |
| Malaysian ringgit | 29 |
| Philippine peso | 30 |
| Singapore dollar | 31 |
| South Korean won | 32 |
| Taiwan dollar | 33 |
| Thai baht | 34 |
| Vietnamese dong | 35 |

## LATAM

| | |
|---|---|
| Argentine peso | 36 |
| Brazilian real | 37 |
| Chilean peso | 38 |
| Mexican peso | 39 |

## MENA

| | |
|---|---|
| Saudi riyal | 40 |
| Egyptian pound | 41 |

# Forecast rates against the US dollar - End-Q4 2026 to End-Q3 2027

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| DXY | 101.243 | 102.19 | 100.58 | 98.880 | 97.270 |
| JPY | 157.15 | 155.00 | 153.00 | 151.00 | 149.00 |
| EUR | 1.1360 | 1.1200 | 1.1400 | 1.1600 | 1.1800 |
| GBP | 1.3276 | 1.3100 | 1.3180 | 1.3330 | 1.3490 |
| CNY | 6.7037 | 6.6500 | 6.6000 | 6.5500 | 6.5000 |
| AUD | 0.6957 | 0.7000 | 0.7100 | 0.7200 | 0.7300 |
| NZD | 0.5645 | 0.5700 | 0.5800 | 0.5900 | 0.6000 |
| CAD | 1.4196 | 1.4200 | 1.4000 | 1.3800 | 1.3600 |
| NOK | 9.5892 | 9.7320 | 9.6490 | 9.5690 | 9.4070 |
| SEK | 9.9813 | 10.179 | 9.9120 | 9.5690 | 9.3220 |
| CHF | 0.8343 | 0.8480 | 0.8290 | 0.8060 | 0.7840 |
| | | | | | |
| CZK | 21.501 | 21.790 | 21.230 | 20.690 | 20.170 |
| HUF | 322.33 | 325.90 | 315.80 | 306.00 | 300.80 |
| PLN | 3.8410 | 3.9020 | 3.8070 | 3.7070 | 3.6190 |
| RON | 4.6396 | 4.7320 | 4.6750 | 4.6210 | 4.5680 |
| RUB | 82.825 | 84.440 | 85.610 | 86.750 | 87.880 |
| ZAR | 16.407 | 16.800 | 16.600 | 16.300 | 15.900 |
| TRY | 49.016 | 51.500 | 53.500 | 55.500 | 57.000 |
| | | | | | |
| INR | 95.823 | 96.000 | 96.500 | 97.000 | 97.500 |
| IDR | 17890 | 18350 | 18500 | 18700 | 18600 |
| MYR | 4.0785 | 4.0300 | 4.0000 | 4.0000 | 3.9800 |
| PHP | 62.640 | 62.800 | 62.500 | 62.300 | 62.000 |
| SGD | 1.2769 | 1.2750 | 1.2700 | 1.2700 | 1.2600 |
| KRW | 1354.3 | 1350.0 | 1330.0 | 1315.0 | 1300.0 |
| TWD | 31.852 | 31.800 | 31.500 | 31.200 | 30.900 |
| THB | 33.587 | 34.100 | 34.000 | 33.800 | 33.500 |
| VND | 25961 | 26100 | 26200 | 26300 | 26400 |
| | | | | | |
| ARS | 1518.2 | 1575.0 | 1650.0 | 1700.0 | 1750.0 |
| BRL | 5.1791 | 5.2500 | 5.1500 | 5.0000 | 4.9000 |
| CLP | 972.66 | 980.00 | 960.00 | 880.00 | 870.00 |
| MXN | 18.023 | 18.000 | 17.750 | 17.400 | 17.000 |
| | | | | | |
| SAR | 3.7547 | 3.7500 | 3.7500 | 3.7500 | 3.7500 |
| EGP | 51.942 | 52.500 | 53.000 | 53.000 | 53.500 |

*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 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/JPY | 157.15 | 155.00 | 153.00 | 151.00 | 149.00 |
| EUR/USD | 1.1360 | 1.1200 | 1.1400 | 1.1600 | 1.1800 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/JPY | | 156.00 | 154.00 | 152.00 | 150.50 |
| EUR/USD | | 1.1600 | 1.1600 | 1.1700 | 1.1800 |

## MARKET UPDATE

USD rebounds vs EUR, weakens vs JPY

In September the US dollar strengthened against the euro in terms of London closing rates, from 1.1598 to 1.1360. However, the dollar weakened against the yen, from 160.03 to 157.15. The FOMC at its meeting in September raised the range for the federal funds by 25bps to 3.75%-4.00%. The FOMC ended QT last December with the Fed is no longer reducing UST bond holdings. MBS holdings continue to decline but are offset by buying of US T-bills, now running at around USD 25bn per month.

## OUTLOOK

Fed action helps the dollar

The US dollar strengthened in September helped primarily by the notable upturn in US yields as the Fed hiked rates and indicated the potential for more to come. The DXY closed September 2.0% higher and the highest monthly close since March 2025 just ahead of the Liberation Day drop the following month. The decision to hike was unanimous and the median dots profile indicates another hike this year and then rates remaining on hold in 2027. The skew of the dots was more aligned to the risk of another hike in 2027. Fed Chair Warsh was hawkish in the press conference, as you'd expect while numerous Fed officials indicated in the following days that they would support another hike. This was an important development for supporting the dollar given the previous month there had been renewed fears over USD debasement following the decision of Scott Bessent to announce a Treasury bond buy-back plan. President Trump criticised the hike, but the median dots and the communications suggested Warsh will not be influenced by President Trump.

Overshoot risks near-term but rate hike pricing is excessive

Projecting forward to the middle of 2027 using OIS and consensus for inflation, we estimate a real fed funds rate of 2.90%, similar to the peak real fed funds rate following the global inflation shock in 2022-23. We are sceptical that the US economy requires that degree of monetary tightening. Economic activity has shown resilience but there remain signs of a two-tier economy that highlights fragility. While equity markets remain close to all-time highs and the AI investment boom continues, consumer confidence plunged in September, remarkably hitting a level worse than during covid and the worst since 2014. The JOLTS report also showed a drop in job openings in August. AI momentum could also start to fade. The force majeure by Oracle to protect against delays to construction of a data centre in New Mexico underlines the rising opposition and risk of increased regulation slowing investment.

Substantial changes to USD forecasts

Our Fed view was incorrect and the hike in September plus another in December alters our US yield forecast profile. We see near-term risks of a further overshoot of yields that could see the dollar extend gains further. However, we have also raised our policy rate forecasts for the ECB, Riksbank, Norges bank, BoE, RBA, BoC, and BoJ, limiting relative yield changes. We still believe the US economy will see inflation come lower sooner than expected and hence the pricing of rate hikes in 2027 will be taken out. Our Q4 EUR/USD forecast has been lowered notably (1.1200 from 1.1800) but US yields should reverse course in 2027 and hence the dollar weakens.

| | Interest Rate Close | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| Policy Rate | 3.88% | 4.13% | 4.13% | 4.13% | 3.88% |
| 3-Month T-Bill | 4.11% | 4.18% | 4.18% | 4.18% | 3.93% |
| 10-Year Yield | 5.28% | 4.75% | 4.63% | 4.50% | 4.38% |

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

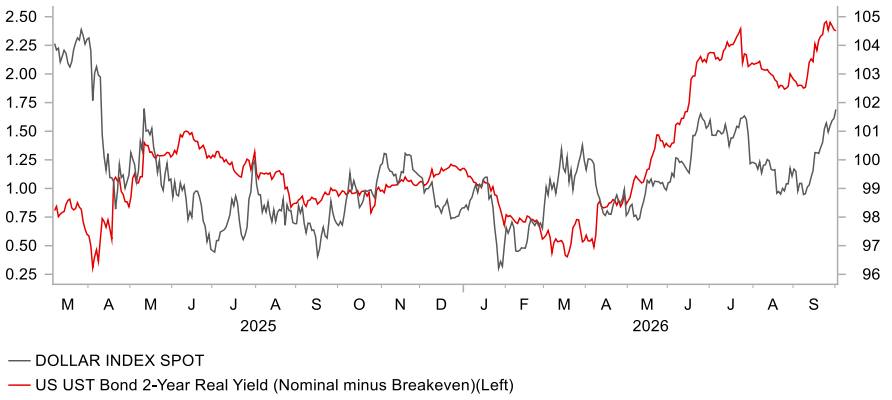
## INTEREST RATE OUTLOOK

We expect the Fed to skip October, and if inflation "trends" warrant, the last meeting of the year in December makes more sense for the next potential Fed hike.

Last month, the US team updated the US rates and Fed views (see link). From a US monetary policy perspective, if the Fed is to deliver an additional rate hike in 2026, it would make more sense to wait until December when they release the last set of SEPs for the year. Although inflation has proved to be sticky, with elevated pressure primarily coming from energy prices, given that the recent PCE data was less hot than expected has been a relief. That said, the rate of disinflation has proven to be slow, likely too slow for much of the FOMC not to at least deliver two total hikes in 2026. Furthermore, to achieve quicker declines in inflation would likely require a rapid conclusion of the war moreso than from being arrested by a modest hiking cycle (1-3 hikes) from the Fed. The overall term structure has shifted higher on the back of monetary policy expectations repricing. However, embedded in the midst of the recent move up in US rates, especially out the curve and distant forward rates, is the growing fiscal concerns (in the US and abroad), competition for capital from corporates issuers (esp. tech related) all resulting in higher real rates and elevated term premium and not just the anticipation of hikes. (George Goncalves)

Higher real yields reflecting stronger US growth

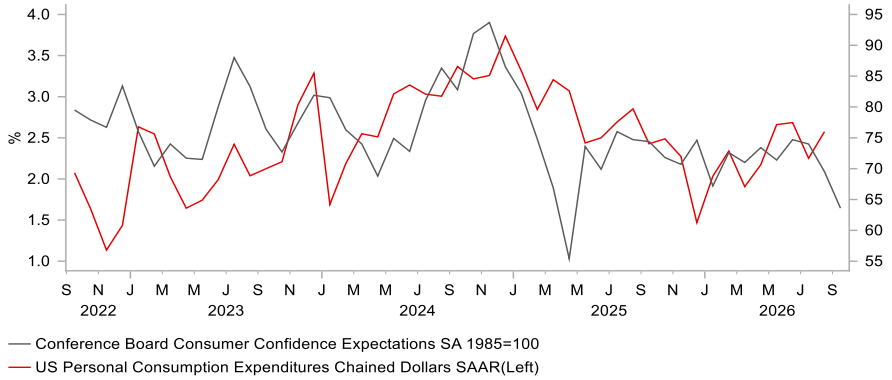
DXY VS US 2YR REAL YIELD




*Source: Bloomberg, Macrobond & MUFG GMR*

Consumer spending has proven resilient despite downside risks

US CONSUMER CONFIDENCE VS. US PERSONAL CONSUMPTION




*Source: Bloomberg, Macrobond & MUFG GMR*

# Japanese yen

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/JPY | 157.15 | 155.00 | 153.00 | 151.00 | 149.00 |
| EUR/JPY | 178.52 | 173.60 | 174.40 | 175.20 | 175.80 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/JPY | | 156.00 | 154.00 | 152.00 | 150.50 |
| EUR/JPY | | 181.00 | 181.00 | 180.00 | 180.00 |

## MARKET UPDATE

JPY strengthens

In September the yen strengthened versus the US dollar in terms of London closing rates from 160.03 to 157.15. In addition, the yen strengthened versus the euro from 185.60 to 178.52. The BoJ at its meeting in September raised the key policy rate by 25bps to 1.25%, the highest level since 1995 and the fourth 25bp hike 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 from then stabilising at around JPY 2trn per month.

## OUTLOOK

More concerted efforts to halt yen depreciation - fiscal dominance fears in Japan have receded

The yen was the top performing G10 currency in September and the only currency to outperform the US dollar. Following the yen buying intervention at the end of July/ beginning of August there was the usual retracement higher for USD/JPY on scepticism over intervention success but then at the start of September the yen surged again, this time on the back of increased speculation of more aggressive monetary tightening by the BoJ. A speech by policy board member Hajime Takata on 2nd September suggesting possible more aggressive tightening ahead prompted a rethink to the market consensus view that the BoJ would remain behind the curve. There were other notable developments as well suggesting a more concerted effort to weaken the yen. FM Katayama stated on 25th September that PM Takaichi "is not a reflationist" and that President Trump had expressed concerns over yen weakness to PM Takaichi. Growth Strategy Minister Miura stated that the "era of Abenomics-style reflationary policies" is over for Japan. Scott Bessent has also implied that a shift in policy direction is underway. These events in September have helped chip away at the perception that the government is pressuring the BoJ to take a softer stance on fighting inflation. Fiscal dominance fears have receded.

A changed view on the BoJ

The comments above and the rate hike in September – the first to come just three months after the last – certainly signal to us a shift in policy strategy. We expect this new faster pace of monetary tightening to be maintained and now expect a 25bp hike in December and again in Q1 and Q2 next year, taking the key policy rate to 2.00%. The two most hawkish policy board members (Takata & Tamura) will leave in July 2027, and their departure may bring to an end to the tightening cycle given the policy rate at that level would be well within the range of neutral. Getting policy to at least a neutral setting is imperative for a sustainable improvement in sentiment toward the JGB market. That would open up the prospect of Japanese domestic investors investing in the JGB market to a greater degree than historically which would also help provide support for the yen.

USD/JPY decline ahead

These change of views come at the same time as changes in views to many other G10 central bank policy forecasts. That means from a spread perspective, the net change is not dramatic. We have tweaked (1 big figure) our USD/JPY forecast projections lower given our higher terminal rate outlook for BoJ policy.

| | Interest Rate Close | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| Policy Rate | 1.25% | 1.50% | 1.75% | 2.00% | 2.00% |
| 3-Month Bill | 1.24% | 1.60% | 1.80% | 2.10% | 2.20% |
| 10-Year Yield | 3.07% | 3.10% | 3.20% | 3.20% | 3.30% |

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

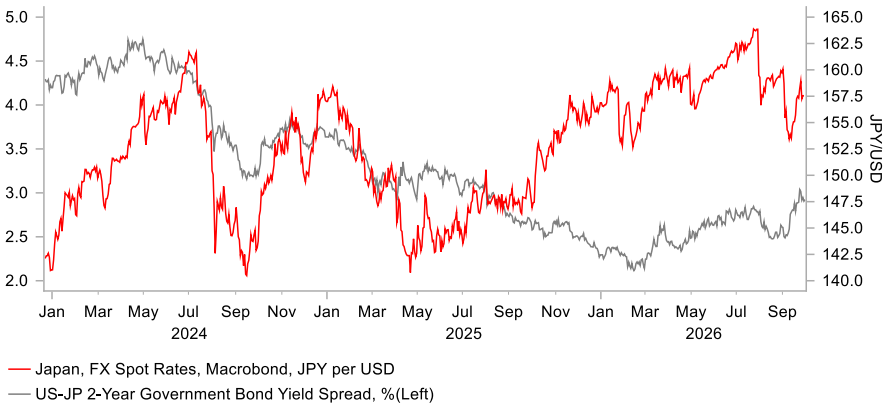
## INTEREST RATE OUTLOOK

Adding another 25bp hike to the forecast profile

The 10-year JGB yield increased again in September, by 11bps to close at 3.07%, the highest monthly close since 1997. The rate hike in September marks a shift to a faster pace of monetary tightening which we now assume will continue until the middle of next year – taking the key policy rate to 2.00%, instead of our previous forecast of 1.75%. Following the rate hike in September, the yen weakened and yields fell but we do not believe the communication from Governor Ueda was dovish. Market pricing on future BoJ action had become too aggressive but the general message from Governor Ueda was that more rate hikes are coming. The BoJ is now shifting its strategy from getting the inflation rate to the 2.0% target to maintaining inflation at the target rate. The current market pricing is roughly aligned to our view of reaching 2.00% by mid-2027 and hence we see longer-term rates starting to stabilise at these higher levels. There are some upside risks related to an overshoot of US rates but we now assume further modest gains in the 10-year forecast before stabilising as confidence in BoJ monetary policy improves demand for JGBs.

Case for deeply undervalued JPY is starting to unravel

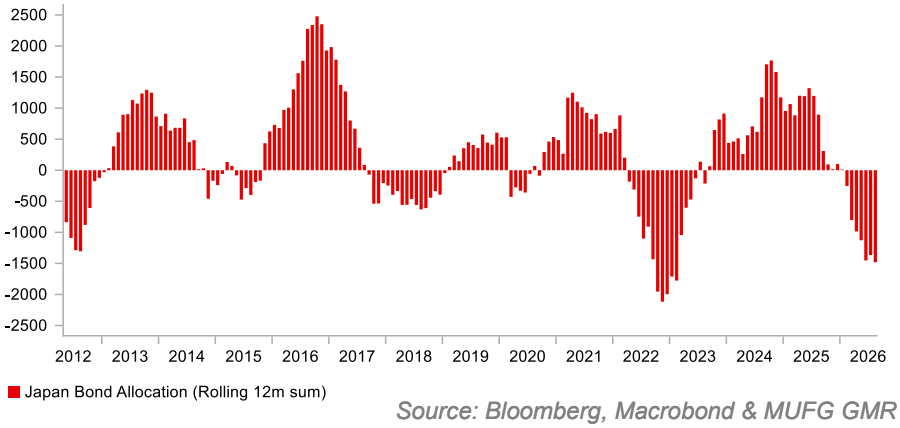
USD/JPY VS US-JAPAN 2YR YIELD SPREAD




*Source: Bloomberg, Macrobond & MUFG GMR*

Higher domestic yields reduce incentive to buy foreign bonds

NET JAPANESE FOREIGN BOND PURCHASES




*Source: Bloomberg, Macrobond & MUFG GMR*

# Euro

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/USD | 1.1360 | 1.1200 | 1.1400 | 1.1600 | 1.1800 |
| EUR/JPY | 178.52 | 173.60 | 174.40 | 175.20 | 175.80 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/USD | | 1.1600 | 1.1600 | 1.1700 | 1.1800 |
| EUR/JPY | | 181.00 | 181.00 | 180.00 | 180.00 |

## MARKET UPDATE

EUR depreciation

In September the euro weakened against the US dollar in terms of London closing rates from 1.1598 to 1.1360. The ECB at its meeting in September raised the deposit rate by 25bps to 2.50%, the second hike which followed a hike in June, the first since September 2023. 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 risks weigh as rates move against the euro

Like nearly every G10 currency, the euro weakened versus the US dollar in September as the Fed rate hike and hawkish rhetoric following the meeting triggered a further readjustment in rate expectations in the US and in many G10 countries. The ECB was also hawkish and front-end rates moved higher but by less than in the US. The sell-off in fixed income globally saw rates volatility surge but this has not yet translated to G10 FX and the appreciation of the US dollar was orderly. TTF natural gas prices also retraced from highs earlier in September to close just 5% higher. Still, risks remain elevated that a more disruptive move higher could unfold that would hurt growth expectations in Europe and likely see EUR sentiment deteriorate further. We have lowered our EUR/USD forecasts to reflect the change in view on the Fed and the assumption that the Middle East conflict will keep energy prices more elevated for longer than assumed previously. The euro drop in September would have been more but for the continued evidence of economic resilience. The advance PMIs for the euro-zone in September were stronger than expected with the Composite PMI increasing to 53.1, the highest level since May 2023. German factory orders surged by 2.5% in July following a 3.7% gain in June. As a result, the annual rate jumped to 13.1%, the biggest gain since July 2021. The strength was very much domestic as well with domestic orders gaining 9.1% and 9.0% MoM in July and June respectively.

Political risks being highlighted by weak fixed income sentiment

With the US dollar strengthening, political uncertainty is adding to negative EUR sentiment. Weak fixed income fundamentals have seen the OAT/Bund spread widen out to levels not seen since the debt crisis in 2012. There have been no specific political developments in France but the OAT/Bund spread widening has highlighted the uncertain political outlook. The passing of the 2027 budget by year-end is not assured while the presidential election in April 2027 is getting closer and may well have an influence in weighing on EUR performance with bond market sentiment so bad. Ending political gridlock is one outcome of the election which may in fact be welcomed by investors, especially with RN continuing to tone down some of the more contentious fiscal policies.

EUR/USD forecasts revised lower – substantially, by 4-6 big figures

Consequently, we are revising lower our EUR/USD projections substantially over the nearer-term (Q4 was previously 1.1800) but in 2027 we expect EUR/USD to recover after political risks recede and global yields, led by US yields start to retrace lower as current pricing on rate hikes recede as growth slows and inflation subsides.

| | Interest Rate Close | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| Policy Rate | 2.50% | 2.75% | 3.00% | 3.00% | 2.75% |
| 3-Month Bill | 2.70% | 2.85% | 3.05% | 2.95% | 2.70% |
| 10-Year Yield | 3.59% | 3.50% | 3.40% | 3.20% | 3.00% |

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

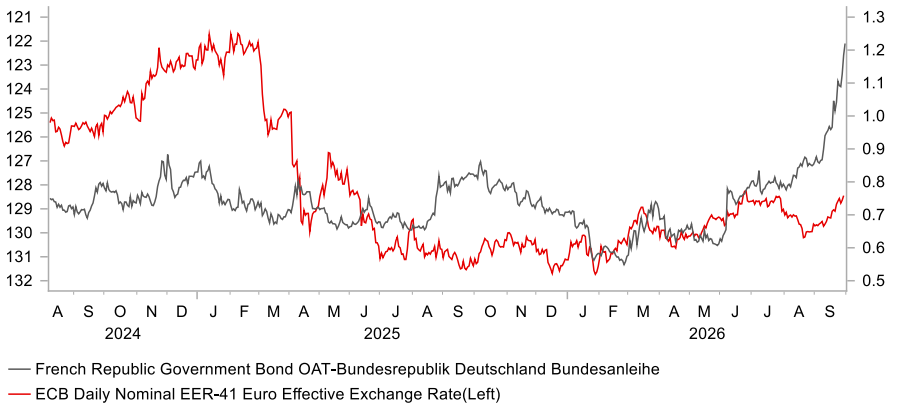
## INTEREST RATE OUTLOOK

### Bund yields revised higher but these levels look unsustainable

The 10-year German bund yield jumped sharply again in September by a substantial 27bps to close at 3.59%, the highest close since 2009. The month-end close was 29bps above our end-Q3 published at the end of August and hence we have raised our forecast projections for the 10-year bund yield. This change coincides with a change of view on the ECB as well. We previously assumed the ECB would halt its tightening cycle at 2.50% but the extension of the closure of the Strait of Hormuz and hence higher energy prices mean the ECB has more work to do. We now assume the ECB hikes twice more before the end of Q1 next year to 3.00%. That's fully priced by the markets with a consensus now that the ECB will want to act to take the policy stance into mild restrictive terruitory in order to counter the risk of energy inflation pass-through becoming more widespread. The resilience of the economy in Europe is also a factor here. Q2 GDP growth was revised up to 0.6% Q/Q due to an Ireland revision but even excluding that, growth gives the ECB confidence that the economy can withstand further rate increases. The market still expects more than that and hence we see scope for a moderate decline in 10-year yields going forward.

### Fiscal & political risks in focus in France

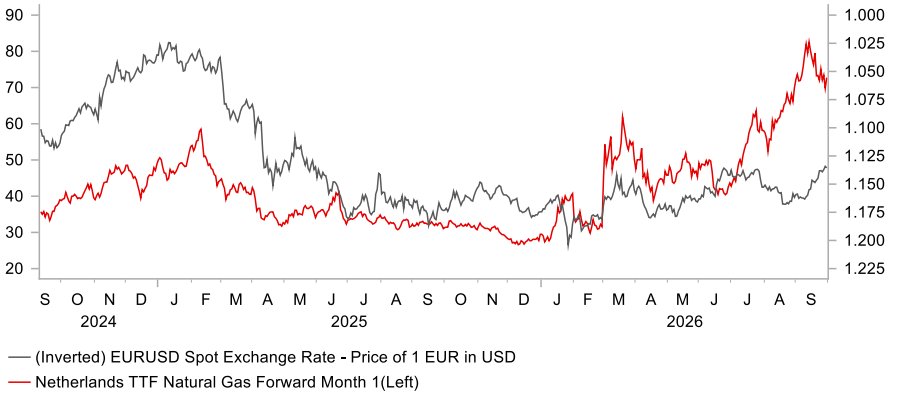
EUR EER VS OAT-BUND SPREAD




*Source: Bloomberg, Macrobond & MUFG GMR*

### Elevated energy prices worsen terms of trade

EUR/USD VS. TTF NATURAL GAS




*Source: Bloomberg, Macrobond & MUFG GMR*

# Pound sterling

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/GBP | 0.8557 | 0.8550 | 0.8650 | 0.8700 | 0.8750 |
| GBP/USD | 1.3276 | 1.3100 | 1.3180 | 1.3330 | 1.3490 |
| GBP/JPY | 208.63 | 203.00 | 201.60 | 201.30 | 200.90 |
| | | Consensus | Consensus | Consensus | Consensus |
| GBP/USD | | 1.3500 | 1.3400 | 1.3500 | 1.3600 |

## MARKET UPDATE

GBP depreciation versus USD

In September the pound weakened versus the dollar in terms of London closing rates, moving from 1.3556 to 1.3276. The pound was basically stable versus the euro, moving only 1 pip from 0.8556 to 0.8557. The MPC at its meeting in September left the key policy rate unchanged at 3.75%, after six 25bp cuts since August 2024.

## OUTLOOK

GBP weakens as a function of the US dollar with EUR/GBP steady yet again

The pound weakened versus the US dollar in September. However, after the yen and the dollar, the pound was the next best performing G10 currency in September. Despite the BoE not hiking in September there was a notable jump in rate hike expectations by the middle of next year – the market now expects 100bps of hikes by July 2027. At the end of August, the market expected 64bps. We don't see what unfolded in September as justifying such an increase and doubt the BoE will deliver hikes of that extent.

BoE to hike as economy shows resilience and energy inflation persists

The 6-3 vote to leave the policy rate unchanged in September was no surprise but of the six members who voted for no change, four indicated a possible need for hiking due to energy inflation risks. A rate hike in November is now close to fully priced and some of the other data suggests a resilience that we believe will require scope for two hikes to counter energy inflation feed-through risks. GDP in July expanded by 0.4% MoM after a 0.3% gain in June. The market expected no change in July. Manufacturing activity strengthened while retail sales were stronger than expected in August. Natural gas prices advanced by 75% in the three months to September. Still, while BoE action looks justified, the need to 100bps of hikes over the next 12mths is less clear. The labour market remains a key channel for pass-through of energy to the wider economy via wage growth, but the labour market remains weak. Payrolled employment fell 26k in August after a 19k drop in July. Private sector, ex-bonus wage growth remains close to a level consistent with price stability (2.9%).

UK budget key for fixed income sentiment

The budget takes place on 28th October and it's like Groundhog Day! Headroom has shrunk from GBP 23.6bn to possibly around GBP 12bn and hence Chancellor Healey will be constrained by what he can offer. Healey stated at the Labour Party Conference that fiscal discipline would be at the core of the budget. That would suggest Healey will try and restore some of that lost headroom and hence the budget will likely contain limited giveaways. The BoE QT announcement (see below) and the DMO possibly announcing a plan to increase issuance of T-bills in order to alleviate Gilt supply concerns are supportive for the long end, and for the pound at the margin.

GBP rangebound versus EUR, to gain modestly versus US dollar

The notable pick-up in rate hike expectations can act to support the pound over the short-term as the BoE delivers (two hikes in our view). But four rate hikes is excessive and that should see EUR/GBP drift higher in 2027. If Chancellor Healey presents a credible budget in October and the Gilt market stabilises it could help limit downside risks and keep EUR/GBP rangebound.

| | Interest Rate Close | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| Policy Rate | 3.75% | 4.00% | 4.25% | 4.25% | 4.00% |
| 3-Month Bill | 4.04% | 4.15% | 4.35% | 4.20% | 3.95% |
| 10-Year Yield | 5.42% | 5.40% | 5.20% | 5.00% | 4.70% |

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

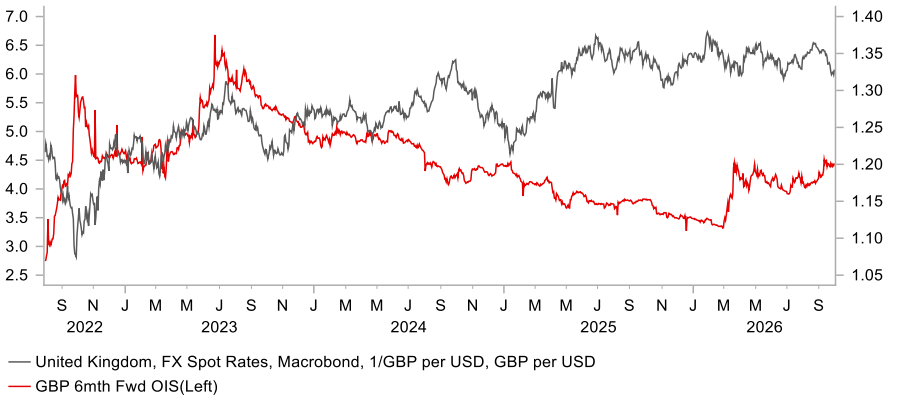
## INTEREST RATE OUTLOOK

BoE to hike in November while issuance rejig could help Gilts

The 10-year Gilt yield jumped in September, by 35bps to close at 5.41%, the biggest monthly jump since March after the US-Iran war began and the highest monthly close since June 2007. The UK government paid its highest yield at a 10-year auction since 1999. The fixed income sell-off was global and led by the US with the shift in monetary policy expectations the primary driver. Fiscal risks linger but were not the driver while inflation expectations (5y5y inflation swap) only increased marginally. Supply concerns have impacted fixed income sentiment and hence the potential for the DMO increase issuance of T-bills to alleviate supply concerns in the Gilt market would certainly help contain yields. The BoE's announcement at the September meeting of changes to its QT plans will also be supportive. The BoE will now hold onto GBP 120bn worth of longer-dated Gilts (maturing 2049 or later), let bonds maturing by 2035 roll off the balance sheet and sell GBP 146bn of Gilts maturing between 2035 and 2049 to the DMO rather than to the market. These factors should help restore some confidence in Gilts and given these steps and the overpricing of rate hikes we expect the 10-year yield to grind lower.

Markets price more aggressive BoE

GBP/USD VS. 6M OIS




*Source: Bloomberg, Macrobond & MUFG GMR*

Higher yields reflect rates and supply concerns rather than inflation expectations

5Y5Y FORWARD INFLATION SWAP




*Source: Bloomberg, Macrobond & MUFG GMR*

# Chinese renminbi

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/CNY | 6.7037 | 6.6500 | 6.6000 | 6.5500 | 6.5000 |
| USD/HKD | 7.8468 | 7.8500 | 7.8300 | 7.8200 | 7.8000 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/CNY | | 6.6900 | 6.6700 | 6.6500 | 6.6200 |
| USD/HKD | | 7.8300 | 7.8200 | 7.8200 | 7.8100 |

## MARKET UPDATE

CNY posted a small gain in September

In September, USD/CNY moved from 6.7272 to 6.7037. On 29th September, the PBoC lowered the 1Y Pledged Supplementary Lending (PSL) rate for the second time in the year, by 25bps to 1.50% while keeping other interest rates (e.g., LPR and reverse repo) unchanged.

## OUTLOOK

Construction activities have picked up and should build further momentum from here as the impact of incremental policies stack up in Q4

While August data remained disappointing and continued to point to K-shaped dynamics, we are starting to see early signs of growth bottoming out as policy measures gradually take effect. The official manufacturing PMI print edged higher and returned to expansionary territory in September benefited from stronger production, with the new orders remaining resilient though employment deteriorated somewhat. While the official services PMI also returned to slightly above the 50-level, the main highlight was the relatively strong improvement in construction PMI at 50.3, marking its first expansionary reading of the year. Such a reading is consistent with the sequential pick-up in the weekly cement shipment rate we tracked in September, and the business expectation PMI for construction also jumped by 3.6ppts to 55.4. We think it is linked to the official launch of the new RMB 800bn policy-based financial instrument in early September and a likely accelerated pace of government bond issuance, supporting infrastructure work including “Six Network”. From the State Council executive meeting chaired by Premier Li Qiang on 28th September, it clearly signalled a higher urgency to enhance counter-cyclical adjustments of macro policies to meet the annual growth target. Not only it emphasized a faster pace of implementation of existing policies but also mentioned to introduce “practical” incremental policies, which implies a targeted approach rather than broad-based.

The latest stimulus provides likely continue to provide support for CNY

On 29th September, a comprehensive set of stimulus packages was announced: 1% mortgage subsidy for first-time home buyers (up to 5 years), 25bps rate cut on 1Y PSL rate with the expanded scope including “Six Network”, increased relending quota for tech and equipment upgrade (by RMB 200bn), agricultural and small businesses (by RMB 500bn) which includes private enterprises (by RMB 300bn). In particular, the share of tech and equipment upgrade loan eligible for the facility funding was raised from 60% to 100%. While the mortgage subsidy is supportive, its impact is likely to be limited as eligibility is restricted to smaller units (up to 120 sqm) and lower-priced homes (up to RMB1.5mn), primarily benefiting lower-tier cities. Overall, we view the packages as providing incremental support to growth and increasing the likelihood of achieving the government's annual target, albeit near the lower end of the 4.5-5.0% range. For the RMB, a still large trade surplus should remain supportive in Q4. However, elevated US Treasury yields and continued dollar strength likely limit the room of CNY’s strengthening. Recent USD/CNY fixings suggest the PBoC remains committed to RMB stability. By setting fixings stronger than market expectations amid dollar-driven RMB weakness, policymakers have signaled a clear intention to resist one-sided depreciation pressures.

| | Interest Rate Close | Q4 2026 | Q1 2027 | Q2 2027 | Q3 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 | 1.67% | 1.75% | 1.80% | 1.85% | 1.85% |

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

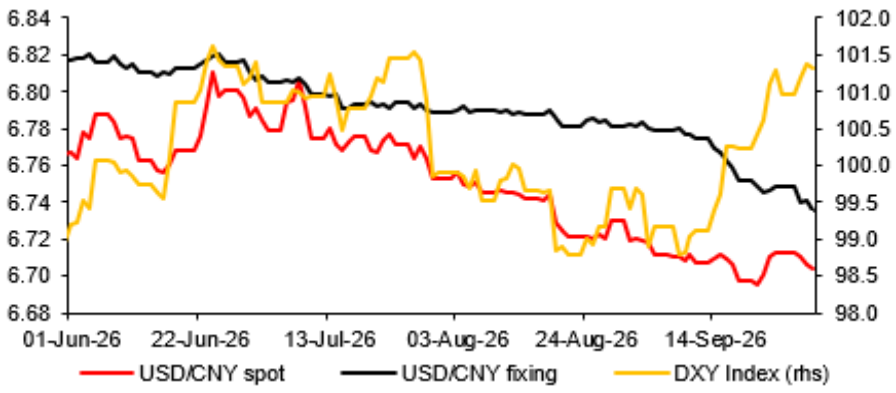
## INTEREST RATE OUTLOOK

Implementing existing policies likely is PBOC's near-term focus

The PBoC delievered a targeted easing through structural monetary policy tools as we previously expected, on both price (25bps cut to 1Y PSL rate) and quantity (expanded relending quotas). Enhancing the fiscal-financial coordination policy, the newly announced 1% mortgage subsidy is not insigificant as the new mortgage rate is at 3.1%, with the 10Y CGB yield retracing part of its earlier (small) decline. However, the fact that only first-time homebuyers purchasing a small unit in lower tier city can enjoy this policy disappointed the market, implies that this new policy is at the lower end of the market's expectation range of potential property stimulus policies. The PBoC is likely to keep the 7-day reverse repo rate unchanged toward end of year, barring any significant downside growth surprise, to protect bank profitability and RMB stability. We expect bond yields to edge slightly higher as growth stabilizes and bond issuance picks up. That said, the upside in yields should be capped by still-subdued inflation, lingering property-sector weakness, PBoC's accommodative policy stance and banks' demand for government bond, suggesting that any bond sell-off is likely to be gradual rather than disorderly.

Lower USD/CNY fixing amid an increasing USD/CNY pair indicate PBOC's desire for a stable currency

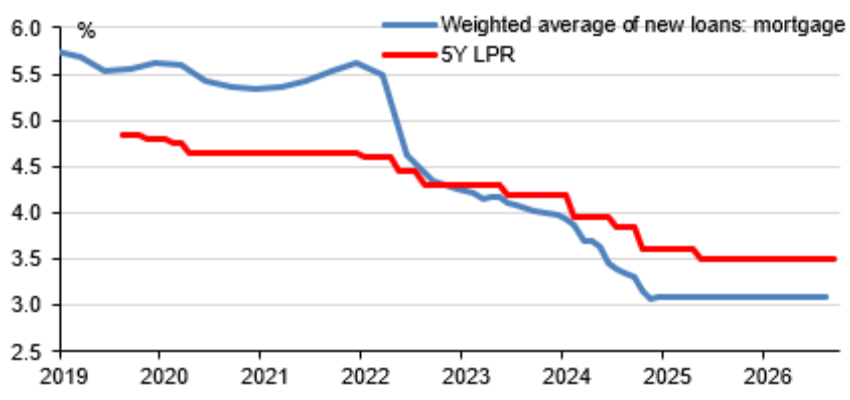
USD/CNY SPOT IS GUIDED LOWER BY THE PBOC USD/CNY FIXING




*Source: Bloomberg, MUFG GMR*

Adjusted by secondary home price, the real interest rate for mortgage is elevated at 8.2% in August

NEW MORTGAGE RATE HAS BEEN STEADY AT AROUND 3.1%




*Source: CEIC, MUFG GMR*

# Australian dollar

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| AUD/USD | 0.6957 | 0.7000 | 0.7100 | 0.7200 | 0.7300 |
| AUD/JPY | 109.329 | 108.500 | 108.630 | 108.720 | 108.770 |
| EUR/AUD | 1.6329 | 1.6000 | 1.6060 | 1.6110 | 1.6160 |
| | | Consensus | Consensus | Consensus | Consensus |
| AUD/USD | | 0.7100 | 0.7200 | 0.7200 | 0.7300 |

## MARKET UPDATE

AUD weakens

In September the Australian dollar weakened against the US dollar in terms of London closing rates from 0.7166 to 0.6957. The RBA at its meeting in September raised the key policy rate by 25bps to 4.60%, the fourth 25bp hike this year taking the policy rate to the highest level since 2011.

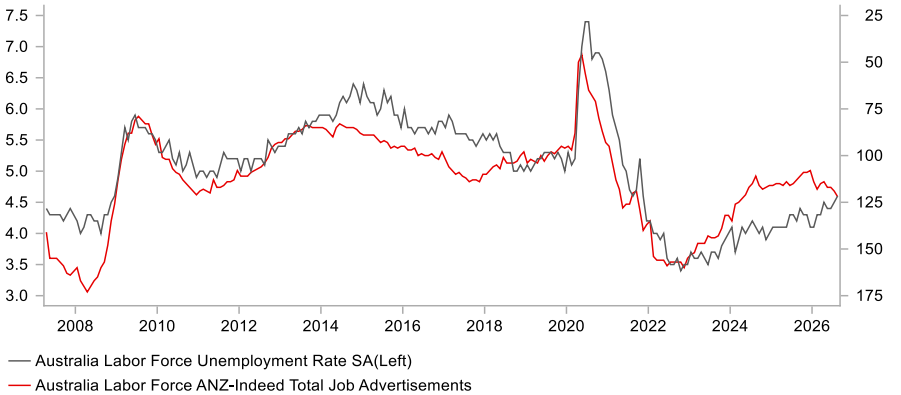
## OUTLOOK

AUD downside should be limited before gradual grind higher

The Australian dollar, like every G10 currency bar JPY, weakened against the US dollar in September with a hawkish rate hike from the Fed helping drive the dollar stronger more broadly. Despite the RBA hiking rates in September, the 2-year AU-US swap spread fell by 24bps as investors moved more aggressively to price more hikes from the Fed. The RBA on the other hand has been more proactive in hiking rates and hence being viewed ahead of the curve is limiting expectations of further hikes. The August CPI data helped to reinforce the view that the RBA's work is mostly done after four rate hikes this year. The MoM headline and core rates were a touch softer than expected. Prior to the September meeting, the market expected nearly three 25bp hikes by June next year. With one delivered, the communication that came with it has seen the market remove some of the third hike which is now a little less than a 50-50 call. While Governor Bullock suggested further action may be required the view of policy as "restrictive" will potentially allow for more time. It's a close call on another hike this year but assuming there is no dramatic increase in energy prices we believe the RBA will now be on hold. That will see AUD struggle to advance initially but excessive tightening is also priced in Europe and the US and hence we should see AUD/USD advance gradually in 2027. The pre-emptive actions earlier this year could serve the economy well assuming the rise in the unemployment rate is not sustained, AUD/USD downside risks can be contained.

Labour market conditions remain key for the next RBA move

AUSTRALIAN UNEMPLOYMENT RATE VS. JOB ADVERTISEMENTS




*Source: Bloomberg, Macrobond & MUFG GMR*

# New Zealand dollar

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| NZD/USD | 0.5645 | 0.5700 | 0.5800 | 0.5900 | 0.6000 |
| NZD/JPY | 88.711 | 88.350 | 88.740 | 89.090 | 89.400 |
| AUD/NZD | 1.2324 | 1.2280 | 1.2240 | 1.2200 | 1.2170 |
| | | Consensus | Consensus | Consensus | Consensus |
| NZD/USD | | 0.5900 | 0.6000 | 0.6000 | 0.6100 |

## MARKET UPDATE

NZD weakens

In September the New Zealand dollar weakened against the US dollar in terms of London closing rates, moving from 0.5913 to 0.5645. In addition, the New Zealand dollar weakened modestly against the Australian dollar, from 1.2119 to 1.2324. The RBNZ at its meeting in September raised the key policy rate by 25bps to 2.75%, the second 25bp hike following a hike in July.

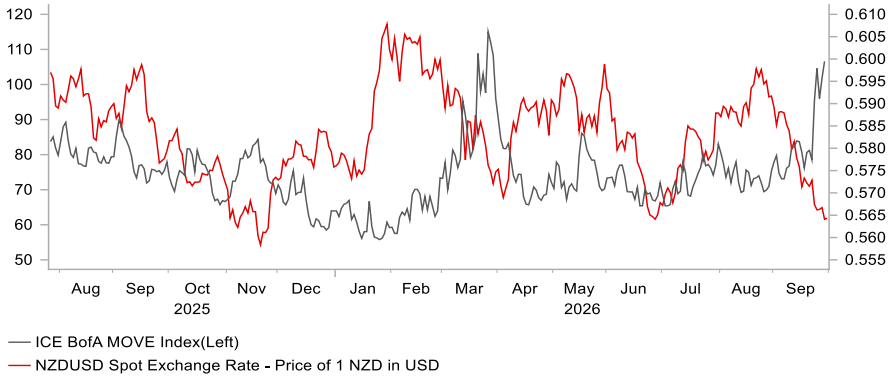
## OUTLOOK

Modest revision and cautious NZD view maintained

The New Zealand dollar was the worst performing G10 currency in September in a month when the US dollar advanced against all G10 currencies bar the yen. The underperformance in September unfolded despite the RBNZ hiking rates. The market was fully priced for the hike but there was disappointment on the guidance with investors surprised by a lack of strong guidance on the extent of future moves. This despite the fact that the RBNZ raised its forecast projections. We have assumed one further hike in Q4 to 3.00%. While global events and energy prices point to a risk of another hike, the overall level of the policy rate is seen as only getting to around neutral and in the context of the move higher in global yields that is clearly disappointing investors who have priced for a more active RBNZ. We continue to believe the OIS pricing of the policy rate getting to 4.00% is overdone and the New Zealand economy will not require such policy restrictiveness. Governor Breman did speak later in September after the policy meeting and was more hawkish but NZD performance has been poor. High-beta FX will be more vulnerable in a climate where yields are rising sharply. There are increased risks of more challenging financial market conditions over the coming months that would like see NZD underperform. NZD/USD has been tracking the 2-year swap spread closely and a more hawkish Fed will also limit upside scope for NZD/USD.

High-beta vulnerable in a climate where yields are rising sharply

NZD/USD VS MOVE INDEX




*Source: Bloomberg, Macrobond & MUFG GMR*

# Canadian dollar

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/CAD | 1.4196 | 1.4200 | 1.4000 | 1.3800 | 1.3600 |
| CAD/JPY | 110.70 | 109.20 | 109.30 | 109.40 | 109.60 |
| EUR/CAD | 1.6127 | 1.5900 | 1.5960 | 1.6010 | 1.6050 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/CAD | | 1.3900 | 1.3800 | 1.3700 | 1.3700 |

## MARKET UPDATE

CAD weakens

In September the Canadian dollar weakened against the US dollar in terms of London closing rates from 1.3897 to 1.4196. The Bank of Canada at its meeting in September kept the key policy rate unchanged at 2.25%. The easing cycle has likely now ended – a cycle that involved total easing of 275bps.

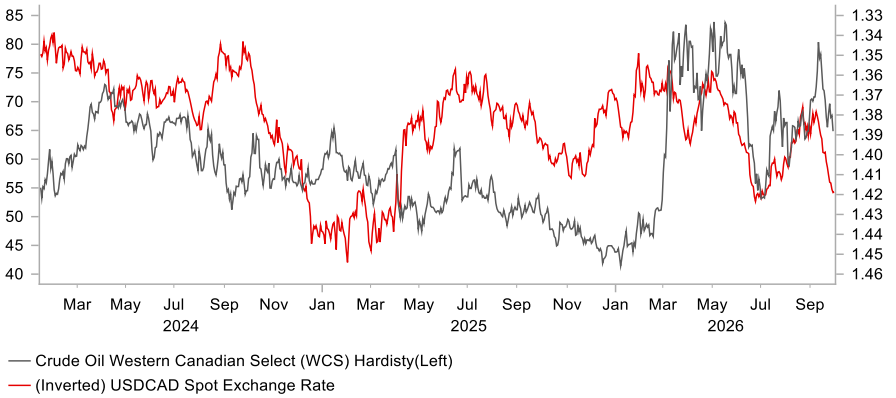
## OUTLOOK

Fed risk countered by higher crude oil prices ahead – modest CAD recovery should unfold in 2027

The Canadian dollar, like nearly all G10 currencies weakened versus the US dollar in September as the Fed rate hike shifted expectations of further hikes that drove a widening of the US-CA spread. The 2-year US-CA swap spread jumped higher, to levels not seen since Q1 2025 when USD/CAD was trading above the 1.4200-level. The data in September helped reinforce investor concerns over the downside risks to growth stemming from the US-Canada trade conflict. The was a 41.7k drop in employment reported for August, the weakest since February. Activity data released were generally weak while the underlying YoY increases in core measures of CPI were at or close to the 2.0% target. There was no compelling justification for the BoC to consider raising rates. While this is all CAD negative, the continued geopolitical uncertainties mean the outlook for crude oil prices are more positive than previously which will provide some terms of trade support. But the BoC met in early September and a lot has changed since then and comments from Governor Macklem later in the months hinted at the potential need for hikes by highlighting the risks of delaying rate hikes too long. The BoC next meets on 28th October and we now assume a hike given the upside inflation risks. A sharp drop in energy prices would be required for no action which seems unlikely. Still, like other central bank pricing we do not see the BoC delivering what is currently priced and that will act to temper the scale of CAD recovery as the dollar weakens. We assume the trade conflict is contained.

Higher energy prices have not prevented a weaker CAD

USD/CAD VS PRICE OF CRUDE OIL




*Source: Bloomberg, Macrobond & MUFG GMR*

# Norwegian krone

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/NOK | 10.893 | 10.900 | 11.000 | 11.100 | 11.100 |
| USD/NOK | 9.5892 | 9.7320 | 9.6490 | 9.5690 | 9.4070 |
| NOK/JPY | 16.388 | 15.930 | 15.860 | 15.780 | 15.840 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/NOK | | 10.900 | 10.900 | 10.900 | 10.840 |

## MARKET UPDATE

Modestly weaker but basically unchanged

In September the krone weakened very modestly against the euro in terms of London closing rates, moving by only 15 pips from 10.878 to 10.893. The Norges Bank raised the policy rate by 0.25 point at 4.50%.

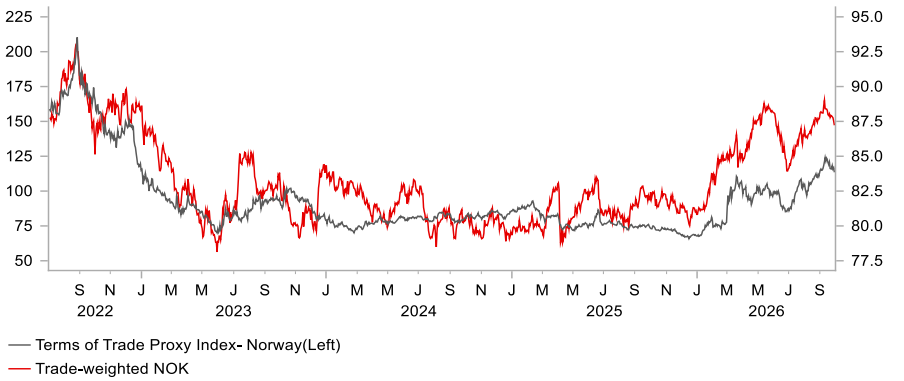
## OUTLOOK

NOK supported by higher energy prices & yields in Norway

The krone ended September roughly unchanged, but EUR/NOK did fall to a fresh year-to-date low of 10.687 during the month. The currency continues to draw support from the positive terms-of-trade shock to Norway's economy resulting from higher energy prices. European natural gas prices have climbed to their highest level since the US-Iran conflict started. The lack of progress in efforts to end the conflict and fully reopen the Strait of Hormuz has increased the likelihood that elevated energy prices will persist for longer. The challenging inflation outlook prompted the Norges Bank to raise rates in September for the second time in the current tightening cycle. Updated guidance also signalled that it will likely be necessary to keep the policy rate elevated for some time, while the Committee remains prepared to raise rates further if needed to bring inflation back to the 2% target within a reasonable time horizon. The Norges Bank placed particular emphasis on the fact that inflation remains well above target. Headline inflation accelerated to 3.3% in August, while core inflation came in at 3.0%. In its latest forecasts, the Norges Bank assumes that the policy rate will remain close to its current level for a period before declining gradually. Rate cuts are not expected until the first half of 2028. The relatively high yields available in Norway continue to support the krone, although the gradual pace of policy tightening limits the scope for further appreciation. The case for higher rates is also supported by the resilience of Norway's economy. The trade surplus widened to its highest level since 2023, driven by stronger energy prices.

Higher energy revenues support NOK

TWI NOK VS. TERMS OF TRADE PROXY




*Source: Bloomberg, Macrobond & MUFG GMR*

# Swedish krona

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/SEK | 11.339 | 11.400 | 11.300 | 11.100 | 11.000 |
| USD/SEK | 9.9813 | 10.179 | 9.9120 | 9.5690 | 9.3220 |
| SEK/JPY | 15.744 | 15.230 | 15.440 | 15.780 | 15.980 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/SEK | | 11.040 | 10.980 | 10.860 | 10.800 |

## MARKET UPDATE

Weaker

In September the krona weakened against the euro in terms of London closing rates from 11.128 to 11.339. The Riksbank held the repo rate at 1.75%.

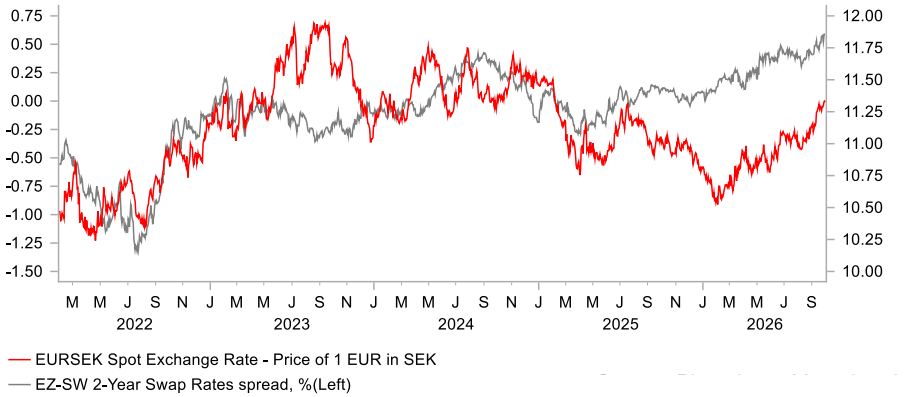
## OUTLOOK

Energy price shock & Riksbank policy caution are weighing on krona

The krona continued to underperform in September, extending its decline since the outbreak of the US-Iran conflict in February. Alongside the Swiss franc, it has been one of the worst-performing G10 currencies this year. The negative energy price shock has weighed more heavily on European currencies, particularly those where central banks have been slower to tighten policy. While the ECB and Norges Bank have already raised rates by 50bps in response to the energy shock, the Riksbank has opted to look through higher energy prices and keep rates on hold. As a result, short-term yield spreads have moved against the krona. The Riksbank has been more reluctant to begin tightening policy, partly reflecting Sweden's softer inflation backdrop prior to the energy price shock. Headline inflation remains well below the Riksbank's target, coming in at just 0.3% in August. However, the Riksbank has emphasised that subdued inflation is largely attributable to the direct effects of temporary fiscal policy measures. After adjusting for these factors, inflation is judged to be relatively close to the 2% target. At the same time, the Riksbank has expressed concern that inflation could rise more than expected if the US-Iran conflict persists. Higher energy prices and the weaker krona are both contributing to upside inflation risks. In response to these growing pressures, the Riksbank has signalled that rates will need to rise more than previously anticipated. The first rate increase is expected before year-end, most likely in November, with a further hike projected in the first half of next year. The shift towards tighter monetary policy should provide greater support for the krona, although the pace of tightening is expected to remain gradual.

Short-term yield spreads have moved against the krona

EUER/SEK VS SHORT-TERM YIELD SPREAD




*Source: Bloomberg, Macrobond & MUFG GMR*

# Swiss franc

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/CHF | 0.9478 | 0.9500 | 0.9450 | 0.9350 | 0.9250 |
| USD/CHF | 0.8343 | 0.8480 | 0.8290 | 0.8060 | 0.7840 |
| CHF/JPY | 188.36 | 182.70 | 184.60 | 187.30 | 190.10 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/CHF | | 0.9400 | 0.9400 | 0.9400 | 0.9400 |

## MARKET UPDATE

CHF weakens further

In September the Swiss franc weakened further versus the euro in terms of London closing rates, moving from 0.9378 to 0.9478. The SNB at its meeting in September kept the policy rate unchanged at 0.00%, after cumulative easing of 175bps.

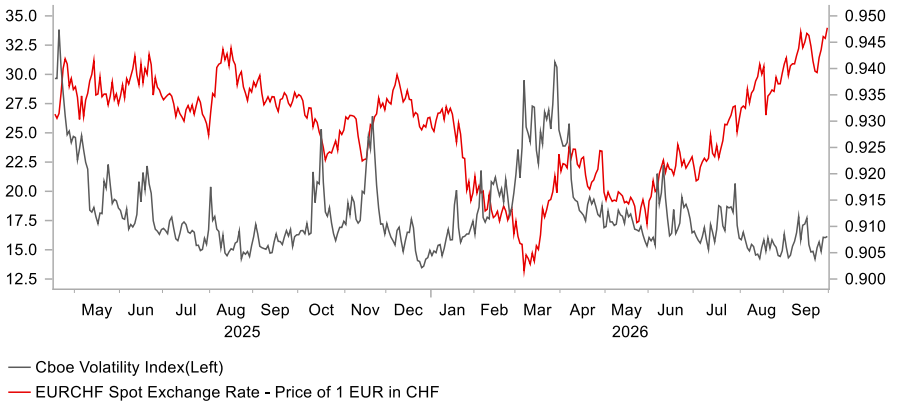
## OUTLOOK

CHF weaker than we assumed on higher global yields but strength should still unfold in 2027

The Swiss franc weakened further in September versus the euro and the US dollar with higher global yields surging following a wave of rate hikes. So there was a more notable move in USD/CHF and franc depreciation in part reflects the continued robust risk appetite despite elevated geopolitical uncertainties and concerns over the global fiscal outlook. With global yields at these higher levels, investors appear unwilling to pay a premium for defensive currencies while broader financial market volatility remains relatively contained. The SNB at its meeting in September when policy was left on hold didn't portray any great level of concerns over inflation risks in Switzerland. The inflation projections were revised higher but not to levels that would warrant any increase in the policy rate. The end-period of the forecast (Q1-Q2 2029) showed inflation revised up from 0.8% to 0.9%. If rates remain unchanged as we expect, then global yields and financial market conditions will remain important determinants of franc direction. In that regard nearer-term risks point to global yields rising further that could further fuel franc selling but tighter financial conditions will likely start to trigger increased financial market volatility that may see investors reconsider the current reluctance to pay a premium for defensive currencies. In addition, whether market conditions worsen or not, we still expect central banks to underdeliver on current market pricing on rate hikes and hence global yields should fall. That will create some scope for the franc to strengthen, albeit to a level a little weaker than previously assumed.

Supressed vol limits CHF upside

EUR/CHF VS VIX




*Source: Bloomberg, Macrobond & MUFG GMR*

# Czech koruna

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/CZK | 24.426 | 24.400 | 24.200 | 24.000 | 23.800 |
| USD/CZK | 21.501 | 21.790 | 21.230 | 20.690 | 20.170 |
| CZK/JPY | 7.3088 | 7.1150 | 7.2070 | 7.2980 | 7.3870 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/CZK | | 24.200 | 24.100 | 24.000 | 24.000 |

## MARKET UPDATE

Stronger

In September the Czech koruna weakened against the euro in terms of London closing rates from 24.130 to 24.426. The Czech National Bank (CNB) held the two-week repurchase at 3.75%.

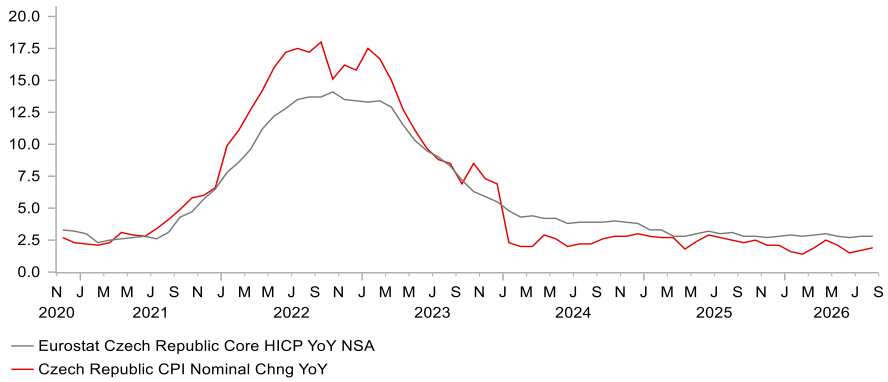
## OUTLOOK

CNB caution over further hikes encouraging softer CZK

The koruna weakened against the euro in September, pushing EUR/CZK to its highest level since April. The currency has come under pressure from the narrowing of short-term yield spreads between the Czech Republic and the euro area. This has been driven by the CNB's decision to leave rates unchanged in September, while the ECB delivered its second rate hike of the current tightening cycle. The CNB has implemented only one rate increase so far in response to the energy price shock. At its latest meeting, the CNB kept rates on hold but indicated that further tightening may be required if inflation risks stemming from domestic demand and global price pressures persist. Governor Michl stated that rates may need to rise "slightly further". These comments suggest that the CNB could continue to lag behind the ECB in tightening policy. In contrast, the ECB has signalled that rates may need to move into "modestly restrictive territory". We expect the ECB to deliver two additional 25bp rate hikes by year-end. Unlike in the euro area, headline inflation in the Czech Republic remains below the CNB's target, providing policymakers with greater flexibility. However, core inflation has been running at around 3.0%. At the same time, the Czech government has been calling for lower interest rates to support economic growth, increasing pressure on the CNB to keep policy unchanged. The Czech economy has continued to expand at an annual rate of around 2%, supported by loose fiscal policy. However, the government's budget plans have faced criticism from Fitch, which stated that fiscal consolidation has been backloaded to 2028-29.

Sticky core inflation raises the risk of further tightening

CZK CPI YOY, % VS. CPI CORE YOY, %




*Source: Bloomberg, Macrobond & MUFG GMR*

# Hungarian forint

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/HUF | 366.17 | 365.00 | 360.00 | 355.00 | 355.00 |
| USD/HUF | 322.33 | 325.90 | 315.80 | 306.00 | 300.80 |
| HUF/JPY | 0.4875 | 0.4760 | 0.4850 | 0.4930 | 0.4950 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/HUF | | 361.50 | 355.50 | 355.00 | 350.00 |

## MARKET UPDATE

Marginally weaker

In September the Hungarian forint weakened marginally against the euro in terms of London closing rates moving from 365.14 to 366.17. The National Bank of Hungary (NBH) held the base rate at 5.50%.

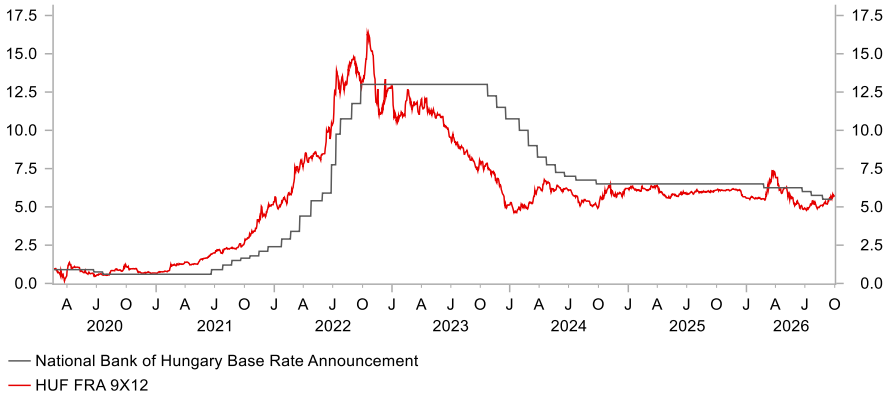
## OUTLOOK

NBH rate cuts are putting a dampener on forint strength driven by improving domestic fundamentals

The forint has consolidated at weaker levels against the euro in September, with EUR/HUF trading in a relatively narrow 360.00-370.00 range since mid-July. As with other Central European currencies, the forint has come under pressure from rising expectations of tighter ECB policy. After delivering a second 25bp rate hike in September, we now expect the ECB to raise rates by a further 50bps by year-end in response to persistent upside inflation risks. In contrast, the NBH has been lowering interest rates this year, as it no longer needs to maintain such restrictive policy settings to support the forint following the favourable parliamentary election outcome in April. The decisive victory for the Tisza party, led by Péter Magyar, has triggered a significant decline in Hungary's country risk premium. Improved relations with the EU, the unfreezing of EU funds, and a return to more orthodox economic policies have all helped to strengthen investor confidence. The policy shift has also fuelled expectations of stronger growth. Economic growth is expected to strengthen towards 2.5-3.0% in 2027. At the same time, the new government has adopted a much more supportive stance towards euro adoption. Officials have consistently highlighted the goal of meeting the Maastricht criteria by around 2030. Euro adoption has been framed as part of a broader effort to restore policy credibility and will require sustained fiscal discipline alongside lower inflation. NBH Deputy Governor Kurali told Reuters that Hungary could enter ERM-II by early 2029 "at the latest". As part of this process, the NBH plans to lower its inflation target to 2.5% from 2028.

Markets are pricing a slower pace of NBH easing

NBH POLICY RATE VS HU FRA 9X12




*Source: Bloomberg, Macrobond & MUFG GMR*

# Polish zloty

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/PLN | 4.3634 | 4.3700 | 4.3400 | 4.3000 | 4.2700 |
| USD/PLN | 3.8410 | 3.9020 | 3.8070 | 3.7070 | 3.6190 |
| PLN/JPY | 40.914 | 39.730 | 40.190 | 40.730 | 41.180 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/PLN | | 4.3100 | 4.3000 | 4.3000 | 4.3400 |

## MARKET UPDATE

Weaker

In September the Polish zloty weakened against the euro in terms of London closing rates from 4.3403 to 4.3634. The National Bank of Poland (NBP) held the seven-day reference rate 3.75%.

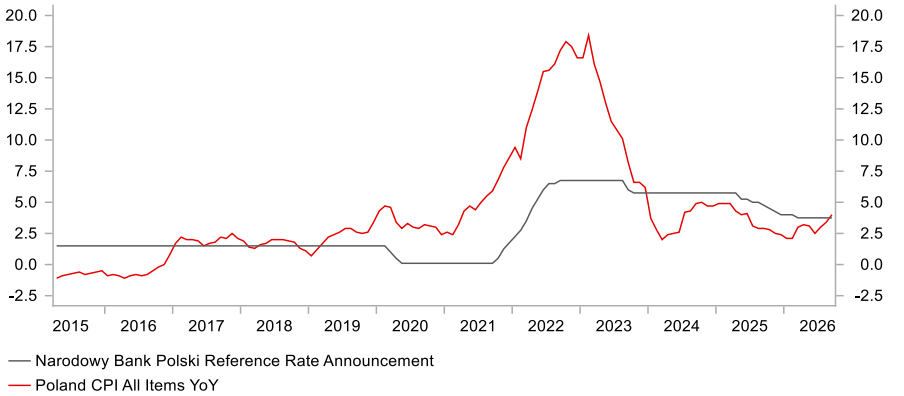
## OUTLOOK

Cautious NBP policy stance is weighing on zloty alongside domestic political risks

The zloty continued to weaken against the euro in September, with EUR/PLN rising to a fresh year-to-date high of 4.4009. The pair had consistently traded below the 4.4000 level since Poland's parliamentary election in October 2023. The return of a pro-EU government under Donald Tusk helped keep the zloty at relatively strong levels for several years. However, the zloty has clearly started to underperform this year, weighed down by the narrowing yield spread between Poland and the euro area. Unlike the ECB, which has raised rates by 50bps in response to the energy price shock, the NBP has lowered rates by 25bps at the start of the US-Iran conflict in March and had even been discussing the possibility of another rate cut ahead of the summer. Following the recent rise in energy prices, however, it now appears unlikely that the NBP will lower rates again this year. Governor Glapiński stated that further rate cuts are "absolutely unrealistic now". On the other hand, the NBP is in no rush to raise rates. Governor Glapiński indicated that he expects Polish interest rates to remain unchanged until around the middle of next year. The NBP's reluctance to raise rates stands in contrast to recent ECB communication, which continues to point towards further policy tightening. We now expect the ECB to deliver an additional 50bps of rate hikes by year-end. The weaker zloty has also been encouraged by Moody's decision to downgrade Poland's sovereign credit rating, reflecting persistent fiscal deficits of around 7% of GDP and growing concerns over the lack of fiscal consolidation ahead of next year's parliamentary election.

NBP remains comfortable keeping rates on hold despite rising energy risks

NBP POLICY RATE, % VS. CPI YOY, %




*Source: Bloomberg, Macrobond & MUFG GMR*

# Romanian leu

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| EUR/RON | 5.2706 | 5.3000 | 5.3300 | 5.3600 | 5.3900 |
| USD/RON | 4.6396 | 4.7320 | 4.6750 | 4.6210 | 4.5680 |
| RON/JPY | 33.871 | 32.750 | 32.720 | 32.680 | 32.620 |
| | | Consensus | Consensus | Consensus | Consensus |
| EUR/RON | | 5.2700 | 5.3000 | 5.3000 | 5.3100 |

## MARKET UPDATE

Weaker

In September the Romanian leu weakened against the euro in terms of London closing rates moving from 5.2557 to 5.2706. The NBR maintained the policy rate at 6.50%.

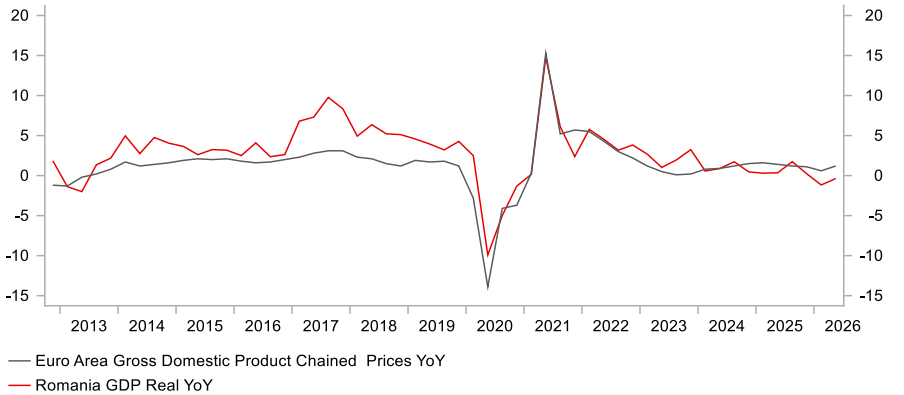
## OUTLOOK

Domestic politics & fiscal concerns remain downside risks for leu

The leu has weakened modestly against the euro in September, with EUR/RON rising above the 5.2500 level, which has served as a strong anchor for the pair since May. Heightened political uncertainty in Romania remains a significant headwind for the leu and domestic assets. Romanian President Nicușor Dan has nominated Siegfried Mureșan as prime minister, although it is far from certain that he will secure the parliamentary vote required to take office. Social Democrat leader Sorin Grindeanu, whose party controls the largest number of seats in parliament, has since stated that he was "surprised and disappointed" by the nomination. Mureșan has 10 days to form a cabinet and attempt to win a vote of confidence in parliament. The prolonged political crisis is weighing on investor confidence in the leu and Romanian assets. It has also delayed key fiscal reforms, increasing the risk that Romania could lose access to at least EUR 77 billion in EU funding. Furthermore, the risk of Romania losing its investment-grade credit rating has increased. S&P is scheduled to review Romania's credit rating this week and currently assigns the country its lowest investment-grade rating with a negative outlook. Fitch recently warned that Romania is running out of time to avoid a downgrade when it reviews the rating in January 2027 unless further fiscal consolidation measures are implemented. The budget deficit is on course to reach around 6% of GDP this year. Efforts to reduce the deficit have been made more challenging by weaker economic growth, with the Romanian economy expected to contract modestly this year.

Weaker growth complicates fiscal consolidation

ROMANIA GDP YOY, % VS. EUROZONE GDP YOY, %




*Source: Bloomberg, Macrobond & MUFG GMR*

# Russian rouble

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/RUB | 82.825 | 84.440 | 85.610 | 86.750 | 87.880 |
| EUR/RUB | 94.089 | 94.60 | 97.60 | 100.60 | 103.70 |
| RUB/JPY | 1.8974 | 1.8360 | 1.7870 | 1.7410 | 1.6950 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/RUB | | 82.000 | 84.000 | 86.000 | 84.000 |

## MARKET UPDATE

Modestly stronger

In September the Russian rouble strengthened modestly against the US dollar in terms of London closing rates from 85.375 to 82.825. The Central Bank of the Russian Federation (CBR) held the key policy rate at 14.00%.

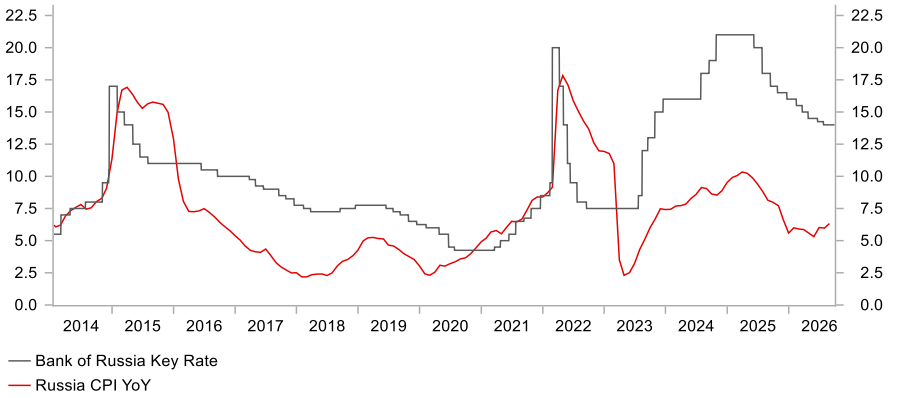
## OUTLOOK

Higher energy prices are not sufficient to prevent a weaker rouble amidst greater drone strike disruption

The rouble has consolidated at weaker levels against the US dollar in September following its sharp sell-off since late May. After hitting a year-to-date high of 88.019 on 3rd September, USD/RUB has fallen back below 85.000. The rouble has outperformed in September, even strengthening against the US dollar despite support from the hawkish repricing of Fed rate hike expectations. The Fed raised rates for the first time and signalled that at least one further hike is likely before year-end. In contrast, while the CBR has been lowering rates this year, it decided to leave rates unchanged in September for the first time since the easing cycle began. The policy statement revealed that the decision to pause reflected concerns over firmer underlying inflation, prolonged production disruptions and uncertainty surrounding fiscal consolidation plans. Governor Nabiullina stated that policymakers only seriously considered holding rates steady. The CBR's estimates of underlying inflation have picked up to an annualised rate of 5% to 6%, moving further above its 4.0% inflation target. The increase appears to be driven largely by secondary effects from production disruptions caused by drone strikes, particularly within the refining sector. The CBR remains optimistic that affected capacity will be restored by year-end. However, the expanding scale and geographical reach of Ukrainian strikes cast doubt on that assumption. The CBR is also waiting to assess the government's fiscal plans, which are due to be released in October. A failure to deliver credible fiscal tightening measures would likely keep interest rates higher for longer.

CBR has become more uneasy over further easing

CBR KEY POLICY RATE VS. HEADLINE CPI YOY, %




*Source: Bloomberg, Macrobond & MUFG GMR*

# South African rand

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/ZAR | 16.407 | 16.800 | 16.600 | 16.300 | 15.900 |
| ZAR/JPY | 9.5781 | 9.2260 | 9.2170 | 9.2640 | 9.3710 |
| EUR/ZAR | 18.639 | 18.820 | 18.920 | 18.910 | 18.760 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/ZAR | | 16.400 | 16.300 | 16.200 | 16.120 |

## MARKET UPDATE

Weaker

In September the South African rand weakened against the US dollar in terms of London closing rates from 16.135 to 16.407. The SARB raised the key policy rate by 0.25 point to 7.25%.

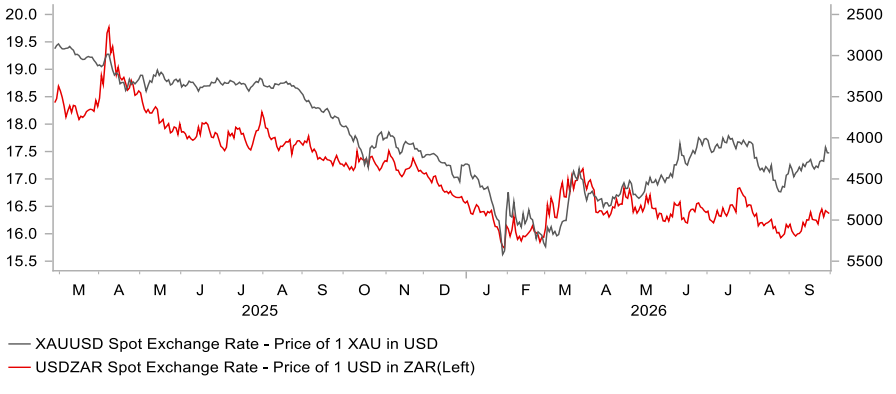
## OUTLOOK

Fed policy tightening is creating more challenging external backdrop for rand

The rand weakened against the US dollar in September after USD/ZAR once again failed to break below support at the 16.000-level. The pair has since moved back towards the middle of the 16.000 to 17.000 trading range that has prevailed throughout 2026. The move higher in USD/ZAR has been driven primarily by broad-based US dollar strength following the Fed's first rate hike in response to the energy price shock. Furthermore, the Fed signalled that it expects to raise rates at least once more before year-end. Higher US rates are reinforcing support for the US dollar from the positive terms-of-trade shock generated by rising energy prices. In contrast, South Africa's terms of trade have deteriorated since the summer as higher US yields have weighed on precious metal prices. Gold, in particular, has fallen back towards its year-to-date lows. This is creating a more challenging external backdrop for the rand heading into year-end. The sharp sell-off in the global bond market has had only modest spillovers into the FX market so far. However, downside risks for the rand would increase if higher yields and energy prices were to trigger a deeper correction in risk assets and a pick-up in financial market volatility. The rand's status as a higher-yielding emerging market currency leaves it vulnerable in the event of a forced unwinding of carry trades. At its latest policy meeting, the SARB raised rates for a second time in response to the energy price shock and left the door open to further measured tightening. The SARB expects inflation to rise above 5.0% later this year and in early 2027 before gradually falling back towards 3.0% by the end of 2027.

Falling price of gold weighs on the rand

USD/ZAR VS. PRICE OF GOLD




*Source: Bloomberg, Macrobond & MUFG GMR*

# Turkish lira

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/TRY | 49.016 | 51.500 | 53.500 | 55.500 | 57.000 |
| EUR/TRY | 55.682 | 57.680 | 60.990 | 64.380 | 67.260 |
| TRY/JPY | 3.2061 | 3.0100 | 2.8600 | 2.7210 | 2.6140 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/TRY | | 51.200 | 53.400 | 55.000 | 56.440 |

## MARKET UPDATE

Weaker

In September the Turkish lira weakened against the US dollar in terms of London closing rates from 48.240 to 49.016. The Central Bank of Turkey (CBRT) held the one-week repo rate at 37.00%.

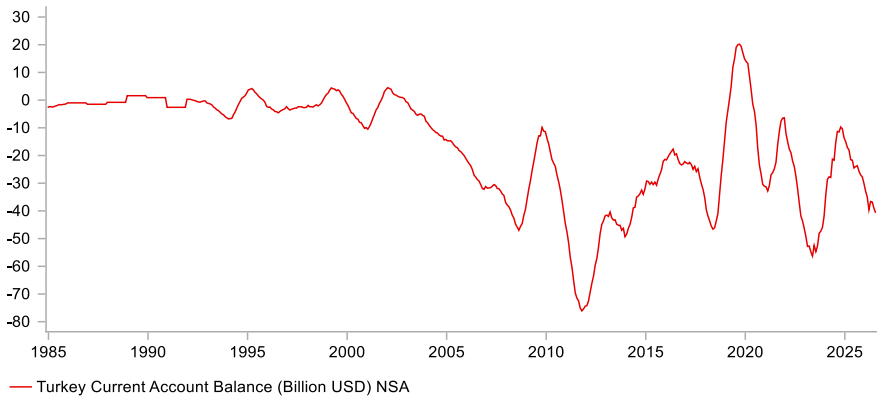
## OUTLOOK

Energy price shock & domestic fund scandal encouraging faster pace of lira depreciation

The lira has continued to weaken against the US dollar at a faster pace in September. 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 a deal to end the US-Iran conflict and fully reopen the Strait of Hormuz has increased the likelihood that energy prices will remain higher for longer. This remains an unfavourable development for Turkey, continuing to encourage a faster pace of lira depreciation. Higher energy prices and weaker tourism inflows are expected to contribute to a widening of Turkey's current account deficit, which Fitch forecasts will widen towards 3% of GDP. Turkey initially stepped up intervention to support the lira when the US-Iran conflict began, but authorities are now more tolerant of a faster pace of depreciation after running down FX reserves. At the same time, investor confidence in Turkey has been undermined by a domestic financial scandal. Regulators ordered the liquidation of 131 funds managed by seven portfolio management companies, totalling around USD20 billion in assets. Treasury and Finance Minister Simsek has introduced measures, including providing market liquidity, to prevent negative spillovers to the broader financial system and economy. The fallout has also reached the ruling AK Party, with Deputy Chair Fatma Betul Sayan Kaya stepping down over her involvement in stock trading activities.

Widening external imbalances add pressure on the Lira

CURRENT ACCOUNT BALANCE




*Source: Bloomberg, Macrobond & MUFG GMR*

# Indian rupee

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/INR | 95.823 | 96.000 | 96.500 | 97.000 | 97.500 |
| INR/JPY | 1.6400 | 1.6150 | 1.5850 | 1.5570 | 1.5280 |
| EUR/INR | 108.85 | 107.50 | 110.00 | 112.50 | 115.10 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/INR | | 95.350 | 95.500 | 96.000 | 96.200 |

## MARKET UPDATE

INR weakened against the US dollar in September with higher oil prices and rising US yields

In September, the Indian rupee weakened against the US dollar to 95.823 from 95.380. 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.

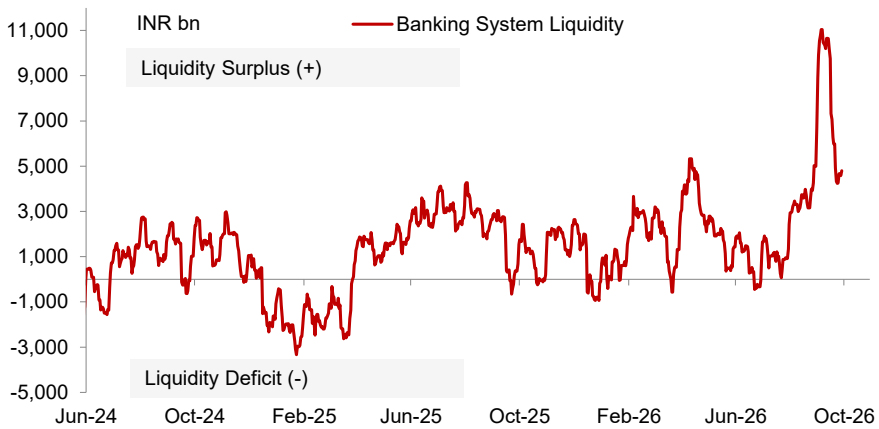
## OUTLOOK

We are still forecasting USD/INR to move higher, but we continue to think RBI's measures have significantly reduced the left tail risk of sharp INR depreciation

We are forecasting USD/INR at 96.000 by Dec 2026 and 97.500 by Sep 2027, implying a gradual depreciation in INR against the US dollar and a modest underperformance against other Asian currencies. We continue to think that RBI's measures have significantly reduced the left tail risk of sharp INR depreciation. Nonetheless, given still strong underlying dollar demand including from gross FDI repatriation and a strong IPO issuance pipeline, we are still forecasting USD/INR to move higher. In particular, following RBI's FX measures announced in June 2026 to support the Indian Rupee, the amount of dollars attracted through the various facilities including FCNR(B) deposits now stands at more than US$140bn, and likely still rising as we speak. RBI's most immediate challenge is to deploy its suite of tools to mop up this excess liquidity as a side effect of the inflows from these FX measures. Importantly this is coming at a time when credit growth in India is accelerating, domestic demand and growth is resilient, fiscal policy is supportive, and inflation looks to be picking up into 2027 in part due to possible adverse weather events and elevated global oil prices. As such, we continue to think the risks tilt towards inflation in India rising faster than expected, with the significant boost to INR liquidity a potential additional impetus. We continue to forecast RBI hiking rates by 50bps in total, and we see some risk the RBI could deliver 75bps of hikes this cycle.

Dollar inflows from RBI's FX measures provide the ability to defend against INR weakness, but also brings about challenges on liquidity management

TOO MUCH OF A GOOD THING? A SURGE IN LIQUIDITY XI




*Source: CEIC, Bloomberg, MUFG GMR*

# Indonesian rupiah

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/IDR | 17890 | 18350 | 18500 | 18700 | 18600 |
| IDR/JPY(100) | 0.8784 | 0.8450 | 0.8270 | 0.8070 | 0.8010 |
| EUR/IDR | 20323 | 20550 | 21090 | 21690 | 21950 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/IDR | | 17793 | 17800 | 17733 | 17650 |

## MARKET UPDATE

IDR weakened against the USD in September.

In September the Indonesian rupiah weakened to 17,890 against the US dollar compared to 17,689 in August. BI kept the policy rate at 5.75% in September.

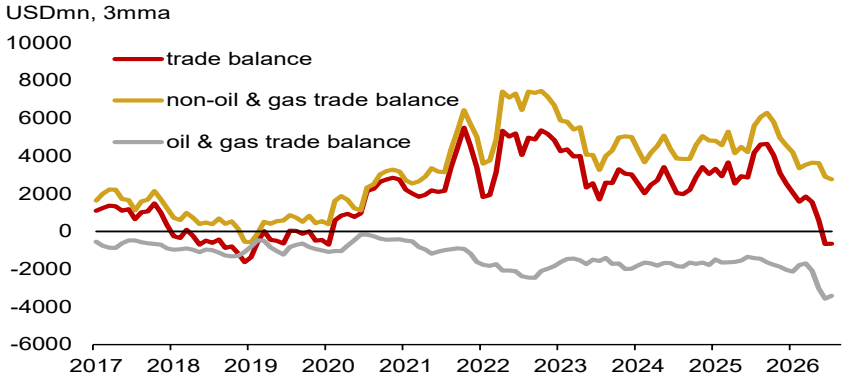
## OUTLOOK

We maintain our upside bias for USD/IDR. Brent above USD100/bbl is eroding the trade surplus, SRBI yields are rolling over as foreign ownership returns above 27%, and portfolio flows have turned negative again. Rising inflation risks are also narrowing BI's room to remain on hold. BI's FX toolkit should help contain volatility but are unlikely to reverse IDR weakness amid global uncertainties.

We maintain our upside bias on USD/IDR, forecasting 18,100 in three months and 18,600 in twelve months. Indonesia's buffers have helped prevent a more disorderly rupiah adjustment, but they are being tested simultaneously by elevated US yields, Brent above USD100/bbl and renewed foreign portfolio outflows. Bank Indonesia can manage the pace of depreciation, but a sustained IDR recovery will likely require meaningful relief from these external pressures. The oil shock is the clearest vulnerability. Higher oil prices are widening the oil and gas deficit, while coal, palm oil and base-metal surpluses can only partly offset the oil shock impact. Unlike the 2022 energy shock, coal is providing a smaller offset, while the non-oil and gas trade surplus has also narrowed. This leaves Indonesia's external balance increasingly exposed if Brent remains elevated above $100/bbl. The second pressure is portfolio capital. BI has improved the return on rupiah assets through elevated SRBI yields and cheaper FX hedging. But SRBI yields have started to roll over, while foreign SRBI ownership has already recovered to more than 27%, which is back to previous highs. September also saw USD484mn of equity outflows, suggesting foreign investors remain cautious. Finally, policy room is narrowing in our view. Headline inflation reached 3.2%yoy in August, below the upper bound of BI's inflation target, but higher energy and agricultural prices maintain upside risks. BI held the policy rate at 5.75% in September, but we still expect the policy rate to reach 6.25% by year-end. Ultimately, BI's toolkit can contain volatility, but without lower US yields, oil prices or renewed portfolio inflows, it is hard to call for a sustained turn lower in USD/IDR.

Trade balance hurt by oil shock

TRADE BALANCE HURT BY OIL SHOCK




*Source: CEIC, MUFG GMR*

# Malaysian ringgit

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/MYR | 4.0785 | 4.0300 | 4.0000 | 4.0000 | 3.9800 |
| MYR/JPY | 38.531 | 38.460 | 38.250 | 37.750 | 37.440 |
| EUR/MYR | 4.6332 | 4.5140 | 4.5600 | 4.6400 | 4.6960 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/MYR | | 4.0200 | 4.0000 | 3.9800 | 3.9600 |

## MARKET UPDATE

MYR weakened against the USD in September.

In September the ringgit weakened to 4.0785 against the US dollar from 4.0230 in August. BNM held its policy rate at 2.75% in September.

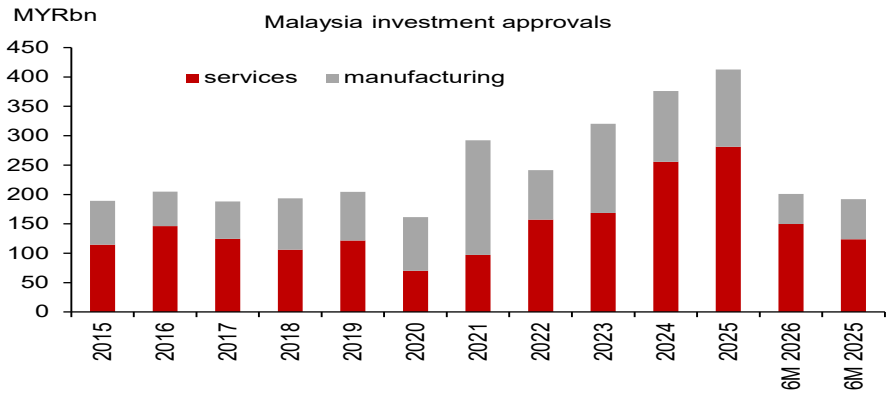
## OUTLOOK

We stay constructive on MYR. The oil shock should remain a source of near-term volatility, but Malaysia's electronics-driven trade buffer, resilient growth and improving foreign bond flows keep the medium-term MYR story intact. Fiscal pressures remain manageable, while contained inflation allows BNM to stay at 2.75% and FX support measures should limit disorderly weakness.

We remain constructive on MYR, forecasting USD/MYR at 4.0300 in three months and 3.9800 in twelve months. Near-term volatility may persist amid elevated oil prices and global yields, but Malaysia's macro and external buffers remain resilient. The key distinction is that the oil shock is creating a headwind rather than fundamentally undermining the medium-term MYR story. The technology cycle remains an important buffer against the oil shock. Malaysia's electronics trade surplus has helped to more than offset the drag from mineral fuel trade deficits, leaving the external position more resilient than the headline oil shock suggests. The domestic investment cycle also remains supportive. Services investment approvals rose more than 20%yoy in H1, led by ICT and data-centre investment. Overall growth remains robust, with GDP expanding 6.0%yoy in Q2 versus the 4.9% pre-Covid trend. Fiscal pressures are rising, but remain manageable. Higher fuel-subsidy costs could slow fiscal consolidation, although strong nominal GDP growth has kept government debt broadly stable at around 65% of GDP. Positive fiscal signals from the 2027 budget announcement on 9th October could be a catalyst for ringgit strength. Importantly, fuel subsidies are also absorbing the inflation shock. Inflation remained around 1.9%yoy in August, with expectations anchored near 2%, giving BNM room to maintain its 2.75% policy rate rather than follow higher global yields. The capital-flow backdrop is also improving. Net foreign bond inflows reached MYR11bn in August, the strongest since May 2025, as the 10y local government bond is fairly valued. BNM's FX support measures encouraging government-linked corporations to repatriate overseas income should also help limit disorderly MYR weakness.

Robust services investment approval offsetting the drag from manufacturing investment approvals

SERVICES INVESTMENT APPROVALS REMAIN ROBUST




*Source: CEIC, MUFG GMR*

# Philippine peso

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/PHP | 62.640 | 62.800 | 62.500 | 62.300 | 62.000 |
| PHP/JPY | 2.5088 | 2.4680 | 2.4480 | 2.4240 | 2.4030 |
| EUR/PHP | 71.159 | 70.340 | 71.250 | 72.270 | 73.160 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/PHP | | 62.650 | 62.700 | 62.500 | 62.100 |

## MARKET UPDATE

PHP was weaker against the USD in September

In September, the Philippine peso was weaker against the US dollar to 62.640 from 62.249. 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.

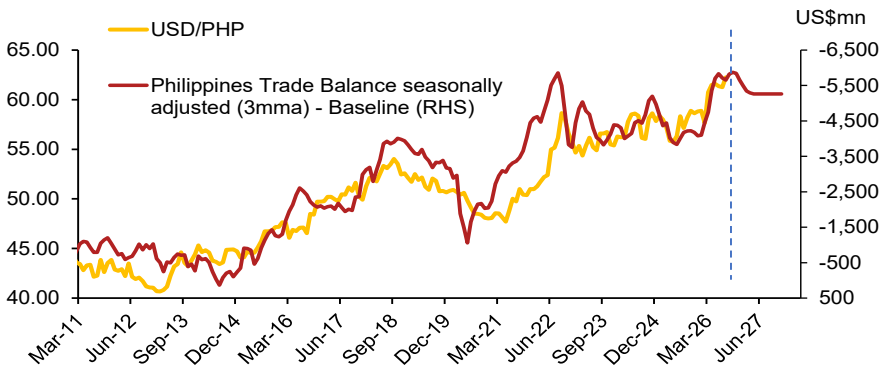
## OUTLOOK

We 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.

We have shifted our USD/PHP profile slightly higher, and now forecast USD/PHP trading above 62.500 levels in 2H 2026 before moving lower towards 62.000 in 2027. Part of our forecast change reflects USD/PHP recently breaking above 62.000 levels, and also driven by global factors salient to PHP such as spikes in oil prices coupled with the rise and stickiness in US yields so far. Nonetheless, our key message to clients is that PHP should still strengthen gradually over time in our base case for several reasons. First, we are forecasting the Philippines' trade deficit to narrow and short-end rates in the Philippines to widen against the US moving forward. We expect oil prices to move gradually lower, the Philippines' non-oil trade deficit to stop widening with some support for exports, coupled with our expectation for BSP to remain hawkish. Second, while headline GDP growth has been relatively soft, what's important is that we expect some improvement as the worst of fiscal contraction fades. Third, while there are significant risks from a severe El Nino event, the good news is that we have seen domestic rice prices move into better balance between supply and demand at least over the past two months. This could very well change of course depending on weather patterns and food import policies, and is one important risk to our view. Lastly, our model suggests PHP is now slightly undervalued against the Dollar. From a policy rate perspective, we forecast BSP hiking rates twice more, likely in the October and December 2026 meeting, and bringing the policy rate to 5.50% from 5.00% currently.

While the FX pair will likely be volatile, our base case forecast has USD/PHP moving lower as oil prices moderate, BSP remains hawkish, and growth improves in the Philippines

PHP TO STRENGTHEN GRADUALLY OVER TIME XF




*Source: CEIC, MUFG GMR*

# Singapore dollar

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/SGD | 1.2769 | 1.2750 | 1.2700 | 1.2700 | 1.2600 |
| SGD/JPY | 123.07 | 121.60 | 120.50 | 118.90 | 118.30 |
| SGD/MYR | 3.1941 | 3.1610 | 3.1500 | 3.1500 | 3.1590 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/SGD | | 1.2700 | 1.2700 | 1.2600 | 1.2600 |

## MARKET UPDATE

SGD weakened in September against the USD.

In September the Singapore dollar weakened to 1.2769 against the US dollar from 1.2744 in August. 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.

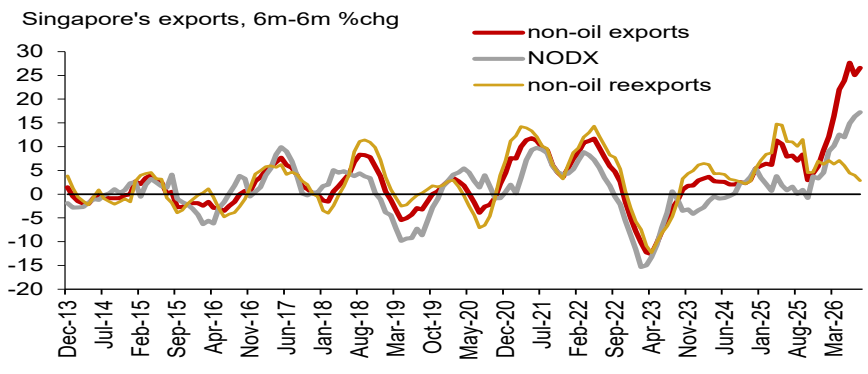
## OUTLOOK

We stay constructive on SGD but expect gradual gains. Singapore's tech-led external buffers and firm S$NEER policy stance should keep SGD relatively resilient to the oil shock, while elevated US yields and the wider US-Singapore rate differential limit bilateral appreciation for now. We favour USD/SGD downside towards 1.2750 in 3M and 1.2600 in 12M, with a broader USD decline needed to unlock more meaningful SGD gains. .

We remain constructive on SGD, forecasting USD/SGD at 1.2750 in three months and 1.2600 in 12 months. Singapore retains relatively strong external buffers, while a firm S$NEER provides an important policy anchor against imported inflation. But elevated US yields, renewed USD strength and a wider US-Singapore short-term rate differential are limiting the extent of bilateral gains for now. The electronics upcycle remains an important source of resilience. Manufacturing momentum and export orders have strengthened, electronics are increasingly driving NODX growth, and electronics PMI has moved firmly above 50. Singapore's growing tech trade surplus provides an important external buffer, while the mineral-fuel balance remains broadly balanced-to-positive, reflecting Singapore's role as a refining and fuel-export hub. Together, these buffers leave SGD better insulated against the oil shock than many regional currencies. Domestic conditions also give MAS scope to maintain a tight SGD policy stance. Headline and core inflation have risen above 2%, with the oil shock feeding mainly through private transportation costs, but inflation pressures remain relatively concentrated. Imported cost pressures are partly offset by falling unit labour costs and a cooling labour market. The main constraint on SGD appreciation is external. Singapore's short-term interest-rate disadvantage versus the US has widened, while renewed USD strength has made it difficult for USD/SGD to sustain moves below 1.2600. We therefore favour gradual rather than aggressive SGD appreciation. A more sustained USD decline would be needed to unlock greater USD/SGD downside.

Export upcycle retains momentum, providing an important growth and trade buffer for SGD

NODX DRIVING THE EXPORT BOOM XM




*Source : CEIC, MUFG GMR*

# South Korean won

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/KRW | 1354.3 | 1350.0 | 1330.0 | 1315.0 | 1300.0 |
| JPY/KRW | 8.6180 | 8.7100 | 8.6900 | 8.7100 | 8.720 |
| EUR/KRW | 1538.5 | 1512.0 | 1516.0 | 1525.0 | 1534.0 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/KRW | | 1360.00 | 1350.00 | 1340.00 | 1330.00 |

## MARKET UPDATE

KRW gained on the back of exporters' dollar selling flow

In September, USD/KRW moved from 1378.7 to 1354.3. The release of Bank of Korea's August meeting minute showed that some board members are concerned about the adverse impact of rate hikes on vulnerable household, noting that these impacts could be mitigated through a mix of monetary and fiscal policies.

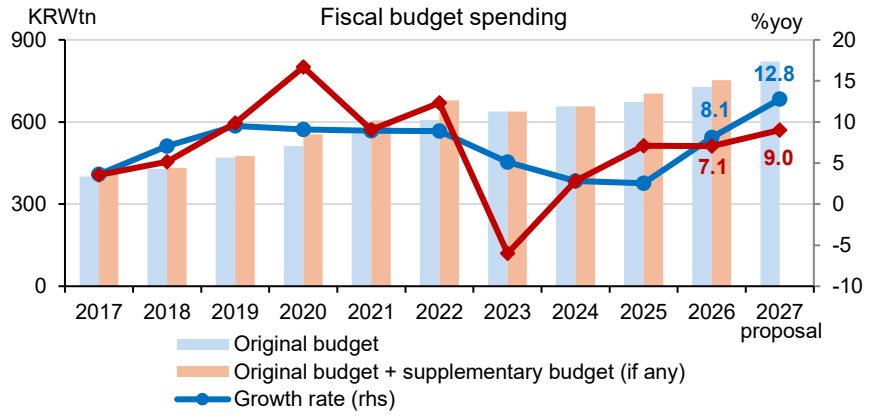
## OUTLOOK

Fundamentals remain supportive of KRW

On 1 September, the Cabinet approved a record-high government budget for 2027 at KRW 820.9tn, growing sizably by 12.8%yoy from this year's budget. The budget aims to engineer a structural rebound in potential growth, address K-shaped economy and optimize the fiscal management through setting the "Future Fund" and restructuring expenditure to redirect the inefficient resources into major national priorities. In particular, the push to strengthen budget support for AI/ semiconductor development (from KRW 10.8tn to KRW 21.3tn) and foster future industries (KRW 41.4tn) would support Korea's medium-to-long term investment and productivity growth, lending fundamental support for KRW. Likely approved by the National Assembly by early December, we believe this expansionary budget will add further inflationary pressure as semi-led growth continues to broaden out. For September, Korea's first 20-day exports grew by 78.3%yoy and reached a record high of USD 71.4bn. Domestically, consumer confidence rebounded to recent elevated level at around 106, signalling the household confidence has repaired from the recent KOSPI volatility. Flow wise, the foreign net selling of Korea' equities intensified again reaching USD 15bn in September. That said, the exporters dollar selling flow continued to offset the downward pressure on KRW despite also higher US rates and stronger US dollar. We expect such dynamics to continue albeit likely to a lesser extent in Q4.

The expected additional tax receipts coming from the semiconductor boom translates into a stronger government spending

### A MORE EXPANSIONARY BUDGET SPENDING PROPOSED FOR 2027




*Source CEIC, MOEF, MPB, National Assembly Budget Office, MUFG GMR*

# Taiwan dollar

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/TWD | 31.852 | 31.800 | 31.500 | 31.200 | 30.900 |
| TWD/JPY | 4.9338 | 4.8740 | 4.8570 | 4.8400 | 4.8220 |
| EUR/TWD | 36.184 | 35.620 | 35.910 | 36.190 | 36.460 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/TWD | | 31.600 | 31.500 | 31.300 | 31.000 |

## MARKET UPDATE

TWD suffered from its status as a low yielder as US rates marched higher

In September, USD/TWD moved from 31.609 to 31.852. On 17 September, the CBC held the policy rate unchanged at 2.00% as expected. Governor Yang stated that the inflation remains under control, and the current monetary stance is slightly restrictive through the use of open market operation tool.

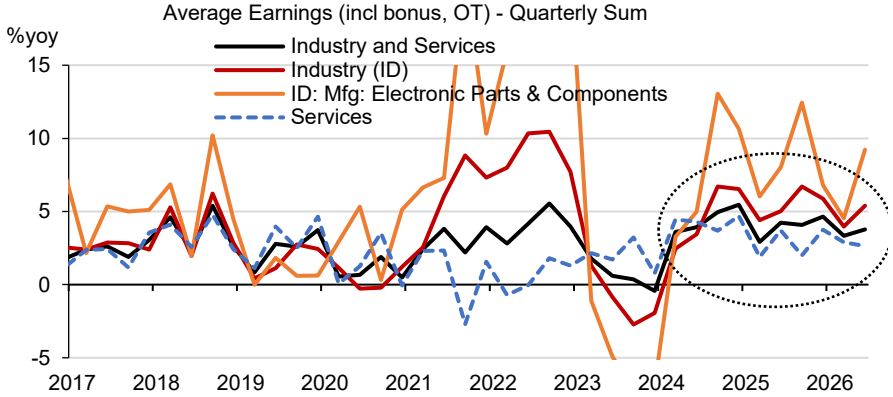
## OUTLOOK

While the economy as a whole is doing exceptionally well, the K-shape dynamic remains

We view the September CBC meeting as somewhat dovish though the overall bias is still toward tightening. While the CBC projects solid growth of 5.82%yoy for next year, it expects the headline inflation to moderate from 2.03% this year to 1.83% next year with the assumption of a lower oil price. Secondly, Governor Yang was explicit to mention that traditional sectors remained under pressure in the prevailing K-shape economy and a still-modest domestic demand. Thirdly, he played down the recent CPI inflation overshooting above 2% level and preferring a wait-and-see approach. We share the view of an uneven demand recovery, as we noted the higher 20% income group CPI inflation is higher than the middle 60% and bottom 20% groups this year. Apart from the rate decision, the CBC slightly loosened the selective credit controls as housing market cooled and bank's loan portfolio is less concentrated on real estate. Overall, Taiwan's economy remains in a booming phase as indicated by August monitoring indicator. August export orders delivered an upside surprise as it crossed USD 100bn for the first time, growing by 71.4%yoy whereas industrial production remained robust growing above 20%yoy for three consecutive months. Market wise, foreign investors turned net sellers of Taiwan's equities (USD 3.5bn) as the risk sentiment was weighed down by the possibility of a slower AI development, higher oil prices and US rates. While we think TWD is facing short-term external headwinds including a firmer US dollar, the macro fundamentals remain supportive.

Industry/ manufacturing income growth is largely above their pre-covid level whereas the growth in services sector is still flat and had even softened in Q2 this year

UNEVEN INCOME GROWTH ACROSS INDUSTRY AND SERVICES SECTORS XT




*Source: CEIC, MUFG GMR*

# Thai baht

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/THB | 33.587 | 34.100 | 34.000 | 33.800 | 33.500 |
| THB/JPY | 4.6789 | 4.5450 | 4.5000 | 4.4670 | 4.4480 |
| EUR/THB | 38.155 | 38.190 | 38.760 | 39.210 | 39.530 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/THB | | 33.050 | 33.000 | 33.000 | 32.800 |

## MARKET UPDATE

THB weakened against the USD in September.

In September the Thai baht weakened to 33.587 against the US dollar from 33.103 in August. The Bank of Thailand held its policy rate unchanged at 1.00% in August.

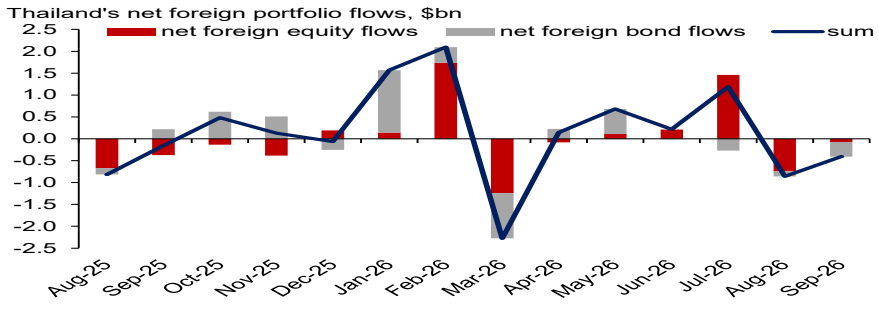
## OUTLOOK

Stay cautious on THB. The electronics boom provides only a partial buffer against deteriorating terms of trade, weak growth, low BoT rates and persistent portfolio outflows. With policy and fiscal space constrained, we see limited catalysts for a sustained THB recovery. We forecast USD/THB at 34.100 in 3M and 33.500 in 12M, with near-term risks skewed to the upside.

We remain cautious on THB, forecasting USD/THB at 34.100 in three months and 33.500 in 12 months, with risks still tilted towards further near-term upside. Thailand is benefiting from the global technology cycle, but stronger electronics exports are insufficient to offset deteriorating terms of trade, weak growth, low interest rates and net foreign portfolio outflows. The electronics boom is generating less FX support than headline export growth suggests. Thailand remains a net importer of semiconductors and components needed for electronics production. As semiconductor prices have risen, the electronics import bill has also increased, limiting the net trade benefit. Meanwhile, higher mineral-fuel imports have weighed heavily on the overall trade balance. More importantly, Thailand faces a broader terms-of-trade shock. Terms of trade have fallen to a 27-year low in USD terms, while deficits have widened not only in fuel but also metals, electrical equipment and chemicals. This makes Thailand comparatively exposed to elevated commodity prices. Growth provides little offset, with GDP slowing to 1.9%yoy in Q2 from 2.8% in Q1 and net exports a significant drag. Elevated household debt and slowing consumption further constrain domestic demand. Policy buffers also look limited. We expect the BoT to keep rates at 1.0% into next year, maintaining a substantial negative rate differential versus the US. Fiscal flexibility is constrained by the State Oil Fund deficit and public debt approaching the government's 70% of GDP ceiling. Foreign flows reinforce the bearish signal: equity outflows reached USD462mn in August, while bond outflows have persisted since July. Until terms of trade, portfolio flows or the US rate backdrop improve materially, we see limited catalysts for a sustained THB recovery.

Renewed net foreign portfolio outflows in Aug-Sep

RENEWED NET FORIGN PORTFOLIO OUTFLOWS IN AUG-SEP




*Source: CEIC, MUFG GMR*

# Vietnamese dong

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/VND | 25961 | 26100 | 26200 | 26300 | 26400 |
| JPY/VND | 165.20 | 168.40 | 171.20 | 174.20 | 177.20 |
| EUR/VND | 29491 | 29230 | 29870 | 30510 | 31150 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/VND | | 26200 | 26200 | 26200 | 26150 |

## MARKET UPDATE

VND strengthened slightly against the USD in September

In September, the Vietnamese dong strengthened slightly against the dollar to 25,961 from 26,073. The State Bank of Vietnam kept its refinancing rate unchanged at 4.50%, with 3-month interbank rates moderating slightly to 7.46%.

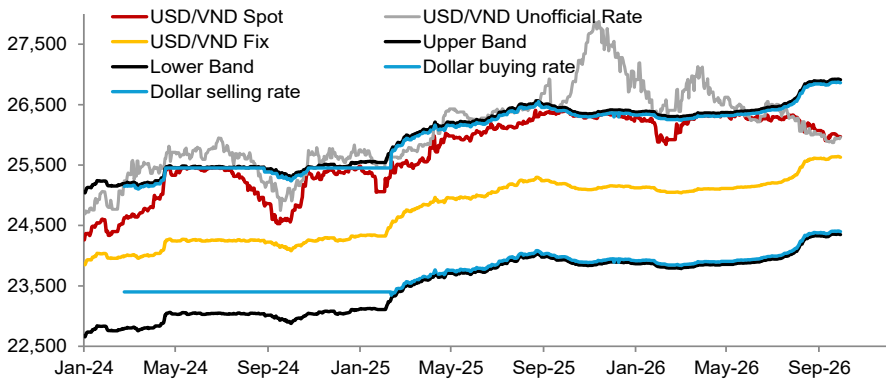
## OUTLOOK

We are forecasting USD/VND to be more stable, and we also expect the 3-month interbank rate to move gradually lower over time

We are forecasting USD/VND to be more stable. We see USD/VND at 26,000-26,100 over the next few months into end-2026, before moving towards 26,200-26,300 levels later in 2027. With a more stable USD/VND FX rate, we also expect SBV to keep rates on hold through 2027. We correspondingly also expect the 3-month interbank rate to move gradually lower below 7% over time. There are a few factors driving our forecast. First, there have been larger capital inflows than we have anticipated and which looks likely to continue, and this is coming despite the widening of the trade deficit in Vietnam. In particular, implemented FDI rose by 15%yoy on a rolling YTD basis, up from around 9-10% a few months ago. Second, from a broader balance of payments perspective, we think a combination of lower Dollar deposit outflows by residents, coupled with greater inflows of offshore loans to fund onshore investment can help explain the stronger and more stable performance by USD/VND so far. Third, Vietnam received a larger-than-expected weighting in FTSE Russell's semi-annual index review, with a weight of 0.49%, above FTSE's earlier projections. This is estimated to bring around US$3bn of foreign inflows over time. Fourth, credit and deposit growth seems to have reached a better balance, even as credit is still overall outpacing deposits. From a fundamental perspective, we think the common thread is that higher domestic VND interest rates coupled with slightly better macro stability have combined to create a better balance in the FX flow picture for USD/VND.

The Vietnam Dong has strengthened against the Dollar despite higher FX fixing rates

### VND HAS STRENGTHENED DESPITE HIGHER FIXING RATES




*Source: CEIC, MUFG GMR*

# Argentine peso

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/ARS | 1518.2 | 1575.0 | 1650.0 | 1700.0 | 1750.0 |
| ARS/JPY | 0.1035 | 0.0980 | 0.0930 | 0.0890 | 0.0850 |
| EUR/ARS | 1724.6 | 1764.0 | 1881.0 | 1972.0 | 2065.0 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/ARS | | 1603.0 | 1655.0 | 1700.0 | 1812.0 |

## MARKET UPDATE

Weaker

In September the Argentine peso weakened sharply against the US dollar in terms of London closing rates from 1,513.1 to 1,518.2. The Argentine central bank (BCRA) held the benchmark overnight repo rate at 29.00%.

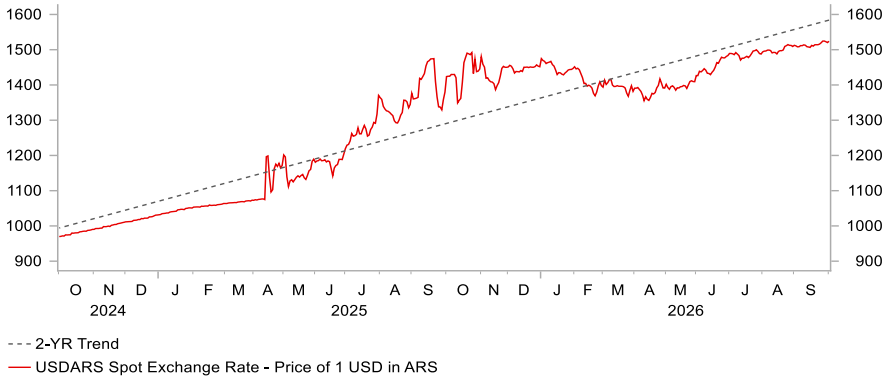
## OUTLOOK

Doubts over economic reform agenda adding to downside risks for peso

The peso has continued to weaken against the US dollar after USD/ARS broke above 1,500 over the summer. The move higher in USD/ARS has been driven in part by broad-based US dollar strength. The Fed's decision to finally raise rates in response to the energy price shock, together with guidance that at least one more hike is likely before year-end alongside further evidence of solid US growth, has encouraged market participants to price in a more aggressive Fed tightening cycle. By contrast, the BCRA slowed the pace of US dollar purchases in September after buying USD768 million in August and USD2.16 billion in July. Argentina has built up its FX reserves this year, with reserves rising to almost USD51 billion in late August. Reserves have since declined by around USD2.6 billion following an IMF payment. At the same time, concerns are beginning to grow over the sustainability of President Milei's economic reform agenda. President Milei's popularity has fallen to its lowest level since taking office, with 62% of Argentines disapproving of the president in July. Economic growth has disappointed this year and the labour market remains weak. Argentina's economy may have contracted for a second consecutive quarter in Q3. Lawmakers also diluted legislation over the summer that would have eased restrictions on foreign land ownership. While investors are unlikely to be overly concerned about the sustainability of the reform agenda at this stage, it could become a more significant issue next year as attention increasingly turns towards the general election scheduled for October 2027.

Peso set to weaken further amidst elevated inflation

USD/ARS VS. 2-YEAR TREND




*Source: Bloomberg, Macrobond & MUFG GMR*

# Brazilian real

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/BRL | 5.1791 | 5.2500 | 5.1500 | 5.0000 | 4.9000 |
| BRL/JPY | 30.343 | 29.520 | 29.710 | 30.200 | 30.410 |
| EUR/BRL | 5.8835 | 5.8800 | 5.8710 | 5.8000 | 5.7820 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/BRL | | 5.2000 | 5.1500 | 5.1500 | 5.0800 |

## MARKET UPDATE

Stronger

In September the Brazilian real strengthened against the US dollar in terms of London closing rates from 5.2147 to 5.1791. The Brazilian Central Bank (BCB) lowered the Selic policy rate by 25bps to 13.75%.

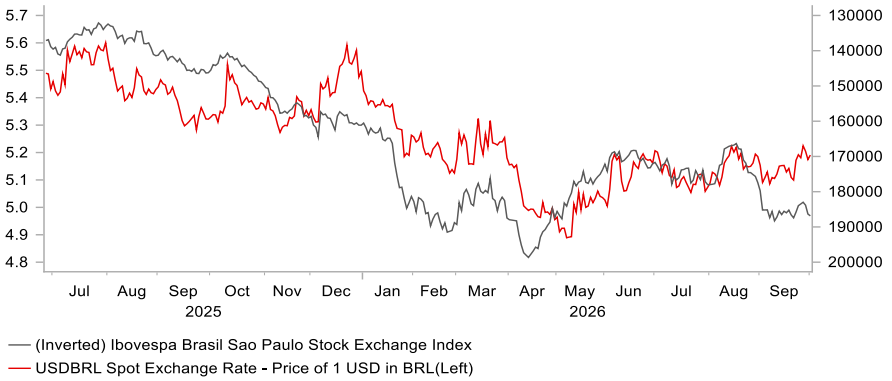
## OUTLOOK

Hawkish repricing of Fed policy outlook & domestic political uncertainty weigh on real

The real has continued to trade at weaker levels against the US dollar since the summer. USD/BRL has moved back above its 200-day moving average and is now trading closer to 5.2000. The pair has been supported by the hawkish repricing of Fed rate expectations, which has encouraged broad-based US dollar strength. This repricing was triggered by the Fed's decision to raise rates for the first time in response to the energy price shock while signalling that at least one further hike is likely before year-end. In contrast, the BCB has continued to lower interest rates gradually, contributing to narrower yield spreads with the US. This has made the real relatively less attractive as a carry trade, although yields remain elevated in Brazil. With the policy rate still at restrictive levels, the BCB is expected to continue easing gradually as evidence builds that the economy is slowing. The BCB lowered its forecast for growth this year to 1.8% and expects growth to slow further to 1.4% next year. Weaker domestic demand is helping to dampen upside inflation risks stemming from the energy price shock. At the same time, higher energy prices are delivering a positive terms-of-trade shock for Brazil's economy, reflecting its emergence as a major energy exporter. Brazil's widening trade surplus is therefore providing additional support for the real. On the other hand, heightened political uncertainty ahead of the presidential election in October has acted as a headwind for the real. The latest polls point to a tight race between President Lula and Flávio Bolsonaro. A victory for Bolsonaro would initially be viewed as more supportive for the real.

Rising support for Bolsonaro helping to provide support

USD/BRL VS. BRAZILIAN EQUITY MARKET




*Source: Bloomberg, Macrobond & MUFG GMR*

# Chilean peso

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/CLP | 972.66 | 980.00 | 960.00 | 880.00 | 870.00 |
| CLP/JPY | 0.1616 | 0.1580 | 0.1590 | 0.1720 | 0.1710 |
| EUR/CLP | 1104.9 | 1098.0 | 1094.0 | 1021.0 | 1027.0 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/CLP | | 915.00 | 905.00 | 903.00 | 900.00 |

## MARKET UPDATE

CLP weakens

In September the Chilean peso weakened against the US dollar from 927.85 to 972.66. The BCCh at its meeting in September kept the key policy rate unchanged at 4.50%, following cumulative easing of 675bps from July 2023 to December last year.

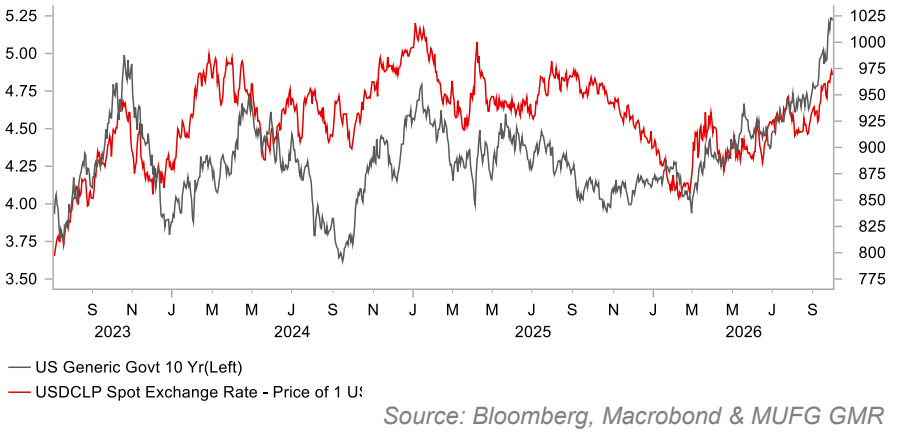
## OUTLOOK

USD/CLP forecast profile raised but should move lower from higher levels

We have revised our USD/CLP forecast profile higher after the pair traded more persistently above our expectations. The peso has continued to benefit from higher copper prices and resilient domestic fundamentals. But these supportive factors have been outweighed by a stronger than expected US dollar backdrop and a more cautious global risk environment. The persistence of elevated US long-term yields has helped to sustain demand for the dollar across many emerging markets with the market now expecting 75bps of additional rate hikes through to mid-2027. At the same time, uncertainty surrounding global growth (especially China growth) given elevated geopolitical risks has reduced investor willingness to build larger positions in cyclical and commodity-based currencies. This has prevented the peso from fully benefitting from the favourable terms of trade impulse coming from higher copper prices. The uncertainties is weighing on economic performance in Chile as was noted by the BCCh at its meeting in September, acknowledging that economic weakness could persist for longer than expected. Chile's economic activity index fell 1.7% in July, the biggest drop since 2022. A higher USD/CLP during Q4 should fade based on our key assumptions of a gradual decline in energy prices on either a formal resolution (bigger drop) or increased traffic through the SoH and that should see rate hike expectations ease. Some retracement in global yields will prove supportive for emerging markets and should prompt some CLP recovery. We have raised our USD/CLP forecast profile by roughly 2% in H1 2027.

Higher US yields support USD across EM

USD/CLP VS US 10Y TREASURY YIELD




*Source: Bloomberg, Macrobond & MUFG GMR*

# Mexican peso

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/MXN | 18.023 | 18.000 | 17.750 | 17.400 | 17.000 |
| MXN/JPY | 8.7193 | 8.6110 | 8.6200 | 8.6780 | 8.7650 |
| EUR/MXN | 20.474 | 20.160 | 20.240 | 20.180 | 20.060 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/MXN | | 17.250 | 17.300 | 17.470 | 17.500 |

## MARKET UPDATE

MXN weakens sharply

In September the Mexican peso weakened sharply against the US dollar from 17.040 to 18.023. Banxico, at its meeting in September kept the key policy rate unchanged at 6.50%. Banxico has cut by 475bps since the easing cycle began in March 2024.

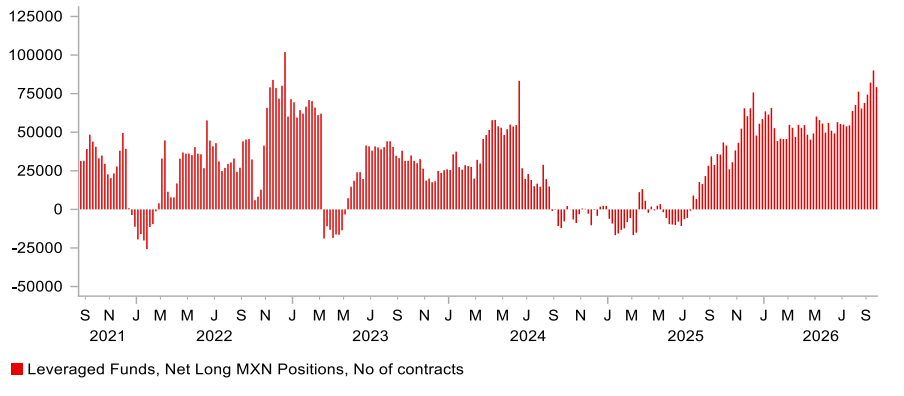
## OUTLOOK

MXN retraces August gains but outlook ahead still favourable although with risks skewed to MXN underperforming our forecast profile

The Mexican peso has gone from the best performing LatAm currency in August to the worst in September. In that context, September was a bad month with clear evidence of a notable liquidation of carry positions as risk aversion rises against the backdrop of considerable selling in global fixed income markets. Near-term selling could persist but the peso should ultimately benefit from its attractive yield advantage and its solid external position. Mexico's current account is close to balanced and if you exclude the covid-induced period of current account surplus, the Q2 2026 external balance is the best since 2010. That said, short-term risks are skewed to the US dollar advancing further as yields remain elevated. We expect the Fed to hike again in December but are doubtful of the Fed delivering on the 50bps of hikes priced beyond. The near-term window of upside risks for USD/MXN also reflects greater uncertainties over carry positions. Higher US yields is an obvious factor but risks of yen appreciation on a more active strategy by Tokyo to deter yen weakness could impact MXN if MXN/JPY carry positions are unwound. Higher vol in general could unfold into year-end and see MXN suffer. While we still expect USD/MXN to move lower, we believe the pace of peso appreciation will be more gradual than previously expected. US economic resilience, slower progress toward our view of Fed easing and higher for longer geopolitical risks could serve to weigh on peso gains. Nevertheless, Mexico's fundamentals are reasonably sound and as global risks subside and US yields decline, peso gains should unfold.

MXN hit by carry unwind

### USD/MXN VS. SPECULATIVE POSITIONING




*Source: Bloomberg, Macrobond & MUFG GMR*

# Saudi Riyal

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/SAR | 3.7547 | 3.7500 | 3.7500 | 3.7500 | 3.7500 |
| SAR/JPY | 41.854 | 41.330 | 40.800 | 40.270 | 39.730 |
| EUR/SAR | 4.2653 | 4.2000 | 4.2750 | 4.3500 | 4.4250 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/SAR | | N/A | N/A | N/A | N/A |

## MARKET UPDATE

The USD/SAR forward was stable in September 2026

The Saudi Riyal 12-month forward was steady in September, holding on to the compression in place since the start of Q2 2026. The Saudi Central Bank followed the Federal Reserve's 25bps hike in September, lifting local currency policy rates for the first time since 2023.

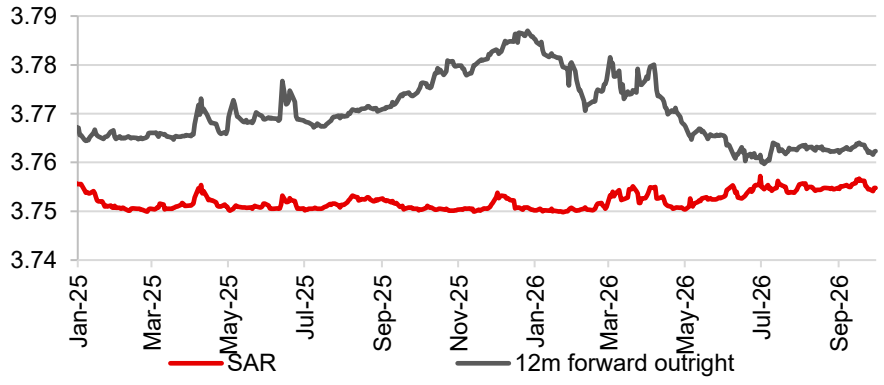
## OUTLOOK

The Saudi economy continues to be impacted by regional conflict

The economic backdrop in Saudi Arabia remains supportive of the SAR peg even as the Saudi economy continues to show signs of adaptation while the US – Iran conflict remains unresolved. The critical East – West pipeline, which allows 7m b/d of crude oil to be transited from production centres in the east of the country to export terminals on the Red Sea, was damaged in September by Iranian-aligned militias operating out of Iraq. The pipeline was temporarily shutdown but by the end of the month repairs had allowed half of the pipeline's capacity to be brought back online. Saudi Arabia quickly shifted to exporting oil via the Strait of Hormuz while the pipeline was shutdown, increasing overall regional flows. Attacks have also increased in pace from Houthi militants in Yemen, including targeting the Saudi capital Riyadh. The Saudi economy contracted in Q2 2026 as the full brunt of the conflict's impact on oil exports became apparent. Headline GDP fell 4.7% y/y in Q2 thanks to a steep 25% decline in oil activities while the non-oil economy managed to report limited growth of 0.9% y/y. Since then, activity indicators showed an improving trend with the Riyad Bank PMI holding above 53 in both July-August. The increase in attacks in September is likely to sap some momentum and optimism in the near term. Nevertheless, substantial project spending from the government will continue to support growth over the medium term.

USD/SAR peg remains secure despite regional volatility

12-MONTH USD/SAR FORWARD CONTRACT VS. PEG XL




*Source: Bloomberg, MUFG*

# Egyptian Pound

| | Spot close 30.09.26 | Q4 2026 | Q1 2027 | Q2 2027 | Q3 2027 |
|---|---|---|---|---|---|
| USD/EGP | 51.942 | 52.500 | 53.000 | 53.000 | 53.500 |
| EGP/JPY | 3.0255 | 2.9520 | 2.8870 | 2.8490 | 2.7850 |
| EUR/EGP | 59.006 | 58.800 | 60.420 | 61.480 | 63.130 |
| | | Consensus | Consensus | Consensus | Consensus |
| USD/EGP | | N/A | N/A | N/A | N/A |

## MARKET UPDATE

EGP lost ground in September

The Egyptian pound depreciated in September, on track for a 2% decline to close at USD/EGP 51.942 from USD/EGP 50.92 at the end of August.

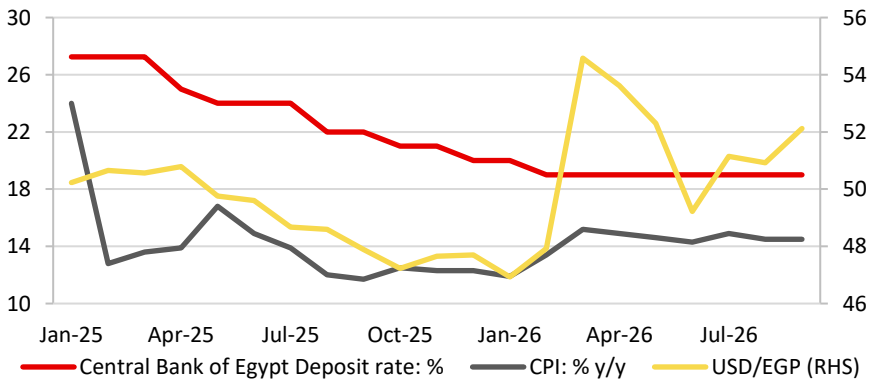
## OUTLOOK

Central bank stays on hold even as inflation slows

The outlook for Egypt's economy remains broadly constructive even amid the external pressures imposed by high oil prices, tighter global monetary policy and the regional conflict. Inflation slowed to 14.5% y/y in August thanks to slower food price inflation, down 1.1% m/m, and the headline figure looks set to remain under control even amid the risk of higher energy prices following domestic prices hikes announced in July. Remittances inflows also continued to improve, rising by 20% in July to USD 4.5bn according to the central bank and were up 28% y/y in the first seven months of the year compared with the same period in 2025. The central banks of Egypt and the UAE also renewed an AED 5bn currency swap agreement, providing another source of international liquidity for Egypt's economy. The Central Bank of Egypt continued to keep rates unchanged at its September monetary policy committee meeting, holding the benchmark deposit rate at 19%. We expect the CBE will delay any cuts to policy rates until 2027 to keep positive real rates in place amid uncertainty in the global inflation backdrop and tighter global monetary policy. We expect the EGP will show a moderate depreciation over the outlook period as the overhang of the regional conflict will be the most critical variable. Structural reliance on external financing and imported energy dependency will also be medium term headwinds for the EGP.

CBE continues to hold rates amid elevated global inflation backdrop

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




*Source: Bloomberg, MUFG*

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