2 October 2026

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Fixed income selling can lift safe haven FX further

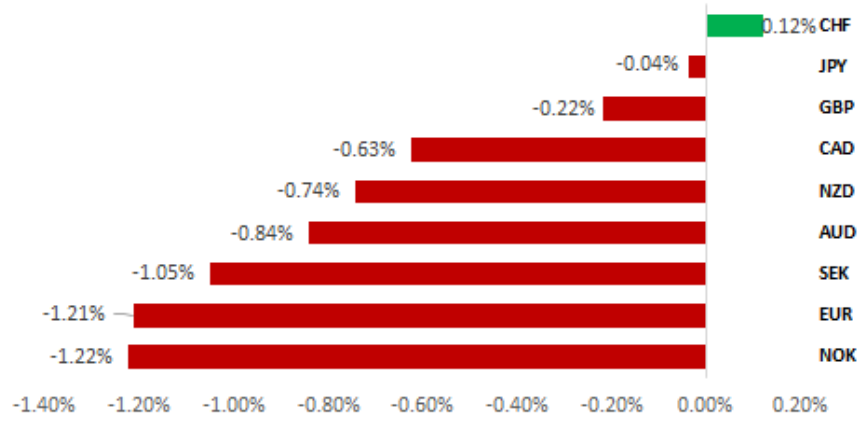
FX View: The sell-off in fixed income eased Thursday, Friday as a spike in volatility across broader markets pushed front-end yields lower on rate hike pricing partially reversed. The blowout in the OAT/Bund spread has been much larger than expected and that leaves the euro more vulnerable to a further drop from here. The OAT selling does look like forced selling so if broader fixed income markets stabilise it might prompt some reversal. We see it as probable that the budget in France passes and RN fiscal policies (aggressive government spending cuts) could ultimately prove bond supportive. ECB action still looks a way off but an early step would be to talk back some of the hikes priced in the market – a EUR negative scenario. There is also beyond the euro of an FX impact from the OAT move and broader fixed income move. FX carry has seen some big unwinds in LatAm while the Swiss franc has benefitted most from the turmoil. The OAT price action looks overdone but near-term risks remain given the potential for further forced selling. Foreign investors could well be driving the move as the largest holder of OATs.

Trade Ideas: We are recommending a new short EUR/JPY trade idea and maintaining our long USD/SEK trade recommendation.

JPY Flows: This week we analyse the higher frequency or fast money flows. The MoF weekly cross border flows revealed signs of risk aversion with foreign investors heavy sellers of Japanese equities.

FX Weekly Options Flow Report: Flows have rotated into one of the most EUR-negative readings observed in recent periods, this is consistent with the market pricing a sustained rather than transient French political risk premium.

CHF & JPY TOP PERFORMERS AS RISK AVERSION INTENSIFIES



Source: Bloomberg, as of 2nd October 14:15 BST (Weekly % Change vs. USD)

EUR: France vulnerability in global fixed income sell-off

Always a challenge to convince investors when sentiment is so bad

The euro performance is at the bottom of the G10 table this week versus the US dollar with the global fixed income sell-off hitting the euro-zone' weakest link at the moment. Years of political gridlock, weak economic growth and fiscal slippage had already made global investors more sceptical of progress being made and then attempting this when we are undergoing such a brutal global fixed income sell-off. We did not expect such a sharp widening of the OAT/Bund spread in such a short period of time and the implications are clearly negative for the macro backdrop in the euro-zone. While the OAT move is the most brutal, spreads have widened sharply in Spain, Greece, Portugal and elsewhere. What are the consequences and possible actions going forward and what will the FX implications be?

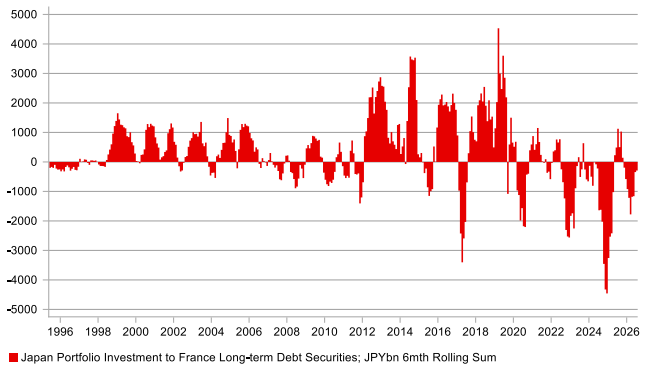
Softer front-end rates as ECB looks to offset tightening conditions

The blowout in spreads is risk-off and we have been highlighting that the risks are elevated that fixed income selling spreads to wider markets. The Swiss franc and the yen are the top performing G10 currencies this week underlining the shift in momentum from higher front-end yields to lower yields. The most important factor in this chain is global equities and for now equities remain resilient although signs of risk-off are spreading. The CAC 40 is down 6% since the start of September while the S&P 500 is just 0.5% lower. Equity risks are contained for now. The first near-term implication could be the reining back of pricing on ECB rate hikes. Tightening financial market conditions due to higher longer-term yields means there is less urgency for ECB rate hikes. We abandoned our view of an ECB rate hike in October based in part on communication from President Lagarde. On 28th September Lagarde stated that higher long-term yields "will slow growth and reduce pass-through by more than projected in our September exercise". This is the first clear communication talking back some of the rate hikes priced – the pricing of rate hikes by mid-2027 is now down 30bps from the peak on 23rd September. We'd expect more concerted communication along those lines if the fixed income sell-off resumes and that would likely exert further downward pressure on the euro initially.

QT & TPI are higher hurdles

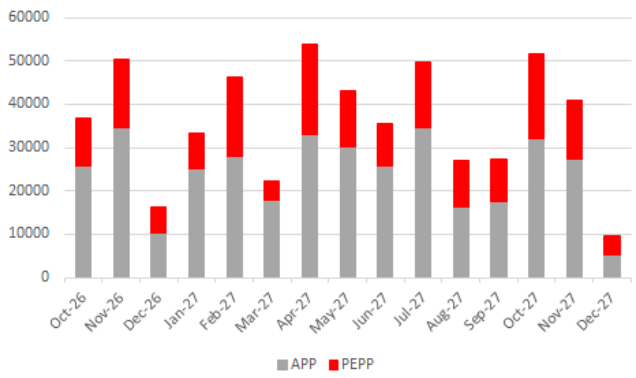
Another possible implication of continued spread widening would be increased speculation on the ECB going further – altering its QT program to ease upward pressure on rates and then triggering the 'Transmission Protection Instrument'. The passive QT program continues with the ECB allowing all maturing bonds from APP (PSPP for sovereigns) and PEPP rolling off the balance sheet. From October through to the end of next year, the ECB estimates that EUR 267.5bn will mature from PSPP and a further EUR 180.2bn from PEPP. A combined EUR 448bn of added supply to the markets over the next 15mths is considerable and any changes to its passive QT

JAPANESE INVESTORS HAVE REDUCED OAT EXPOSURE



Source: Bloomberg, Macrobond & MUFG GMR

ECB APP & PEPP REDEMPTIONS TO DEC 27 (EURMN)



Source: ECB & MUFG GMR

policy would have a meaningful impact on fixed income sentiment in Europe. This still seems some way off though and it is hard to envisage action like this in circumstances when the ECB's bias is to raise rates further given upside inflation risks. A half-way house could be more likely which would involve greater flexibility within the PEPP program. Given this already allows flexibility country to country it would offer the ECB some scope to provide support where fixed income stress is greatest. Again, while more plausible it's a scenario that would only follow the talking back of rate hikes and a notable drop in front-end yields. It would add to downward EUR pressure not only from a rates perspective but also regarding the blurring of lines on ECB independence. TPI would certainly be the last port of call. There are clear guidelines on utilising the program and while they could be fudged it would take evidence of wider turmoil in the euro-zone for that program to be engaged. It would again blur the lines of ECB independence.

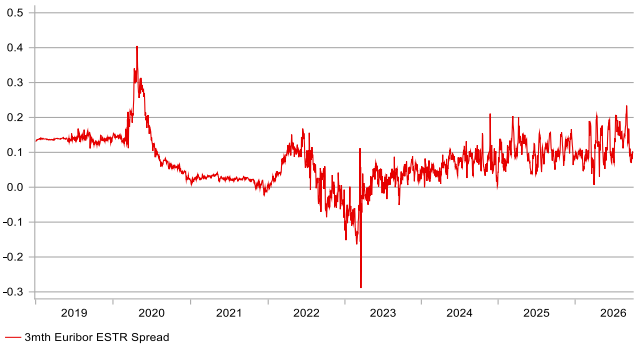
Banking sector stress / liquidity concerns

With balance sheet shrinkage comes reduced liquidity and one sign of stress related to continued fixed income selling and spread widening would be fears over liquidity. The 3mth Euribor / ESTR spread would be one gauge of potential stress but there is no compelling evidence of that yet. The spread did briefly hit a high not seen since covid earlier in September, but it has declined since and has been within normal recent ranges. Banque de France data for Q1 2026 indicate that the largest exposure to OAT selling is not French banks but foreign investors. Resident banks hold 9% of the market while foreign investors hold 56%. French banks also hold a large portion on a hold-to-maturity basis and hence a much less exposed to daily market moves. Still, if the turmoil continues there are certainly risks of reduction in liquidity conditions given the overall decline in liquidity related to ECB balance sheet shrinkage.

RN's policies will be key to fiscal outlook

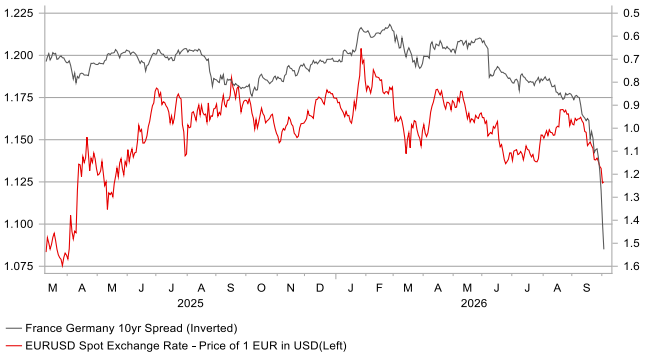
The passing of the 2027 budget will very much depend on Marine Le Pen and RN. Le Pen has already indicated last week that she would be willing to support a less than perfect budget in order to avoid a bond market crisis. That makes sense and politically Le Pen would have little to gain from that ahead of the presidential elections in April/May next year. In a newspaper article yesterday, Le Pen promised to introduce a 'Golden Rule' into the constitution that would force a 0.5ppt reduction in the deficit-to-GDP ratio each year until a level is achieved that "allows the debt-to-GDP ratio to decline each year". RN also advocate government spending cuts of EUR 125bn or 4% of GDP that would certainly help improve fixed income sentiment. That is some way off and investors may question that being achieved. Nonetheless, an election result that removes policy gridlock could ultimately be welcomed by investors. For now, the focus is on near-term risks and the continued blowout in the OAT/Bund spread today will only reinforce speculation on ECB action that will in turn ensure continued downward pressure on the euro.

3MTH EURIBOR / ESTR SPREAD RECENTLY SPIKED



Source: Bloomberg, Macrobond & MUFG GMR

EUR PRESSURED LOWER BY OAT SELL-OFF



Source: Bloomberg, Macrobond & MUFG GMR

FX: Spillovers into FX market from rising bond yields are building

USD hits fresh year-to-date highs amidst rising bond yields

The main focus in financial markets since the summer has been the ongoing sell-off in global bond markets. Over the past week, government bond yields at the long end of the curve have reached fresh highs, moving above the peak levels seen prior to the global financial crisis in 2007. Throughout the summer, the FX market remained relatively stable as spillovers from rising bond yields were limited, but that is now beginning to change. The main beneficiary has been the USD, which has risen to fresh year-to-date highs this week, driven primarily by an abrupt hawkish repricing of Fed rate expectations. Resilient US growth and still-elevated energy prices have encouraged market participants to price in a further three to four Fed rate hikes during the current tightening cycle.

USD's upward momentum has continued even Fed looks less likely to hike again as soon as this month

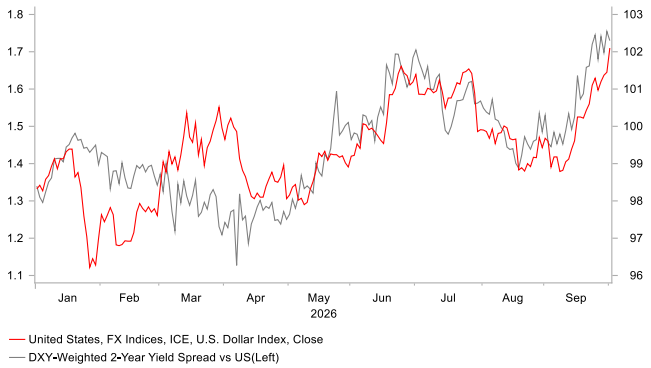
Even cautious comments from Fed officials this week on the need for further tightening, alongside softer US inflation data, have failed to significantly dampen the USD's upward momentum. The probability of a back-to-back Fed rate hike this month has declined after New York Fed President Williams and Vice Chair Jefferson indicated that policymakers can afford to take their time before deciding whether another rate increase will be necessary later this year. In addition, methodological changes to the calculation of the PCE deflator resulted in a more pronounced slowdown in core inflation over the summer, providing some reassurance to the Fed. The core PCE deflator slowed to an annualised rate of 2.0% in the three months to August. While recent developments do not completely rule out another rate hike as soon as this month, it now appears less likely.

Rising bond yields have triggered pick-up in FX volatility particularly for emerging markets. MXN has been hit much harder by carry unwind than BRL so far.

Rising bond yields are also beginning to trigger a pick-up in FX market volatility, making conditions more challenging for carry trades in the near term. The sharpest increase in volatility has been in emerging market currencies, where volatility has climbed to its highest level since the onset of the US-Iran conflict in April. Among emerging market currencies, the CLP and MXN have been hit the hardest this month. After USD/MXN threatened to break below the 17.00 level at the start of the month, it has since risen sharply, reaching a high of 18.432 this week. The MXN sell-off has been reinforced by the forced liquidation of sizeable long speculative positions that had built up ahead of the latest FOMC meeting, when the Fed resumed raising interest rates. The latest IMM positioning report revealed that long MXN positions held by leveraged funds had reached their highest level since the end of 2022. The current move higher in USD/MXN (+9.1%) is already larger than the rally triggered by the US-Iran shock earlier this year (+6.3%).

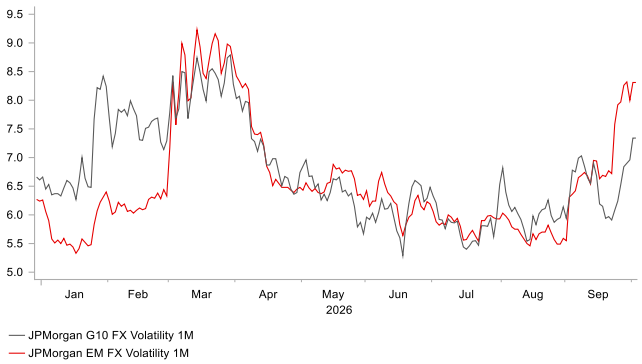
In contrast, other high-yielding emerging market currencies, such as the BRL, have

USD RISES TO FRESH YEAR-TO-DATE HIGHS



Source: Bloomberg, Macrobond & MUFG

HIGHER VOLATILITY DISRUPTS FX CARRY TRADES



Source: Bloomberg, Macrobond & MUFG GMR

held up better so far. Support has come from improving terms of trade driven by higher commodity and energy prices, as well as growing investor optimism surrounding this month's presidential election. The perceived likelihood of President Lula winning re-election has declined, helping to ease investor concerns over the future direction of fiscal policy in Brazil.

Re-emergence of fragmentation risk in Europe has triggered weaker EUR. President Lagarde has already stated that rising bond yields will help dampen growth and inflation, and curtail need for hikes.

One other channel through which rising bond yields are beginning to have a greater impact on the FX market is by reigniting concerns over fragmentation risk in the euro area. French government bonds have been at the epicentre of the global bond market sell-off. The yield spread between 10-year French and German government bonds has widened sharply towards 150bps and has almost doubled over the past month. It is now trading at its widest level since the most intense phase of the euro-area sovereign debt crisis in 2011. Furthermore, yield spreads have also started to widen at shorter maturities and across other European countries, including Italy. If this widening continues to broaden, it will heighten concerns among both market participants and the ECB over fragmentation risk.

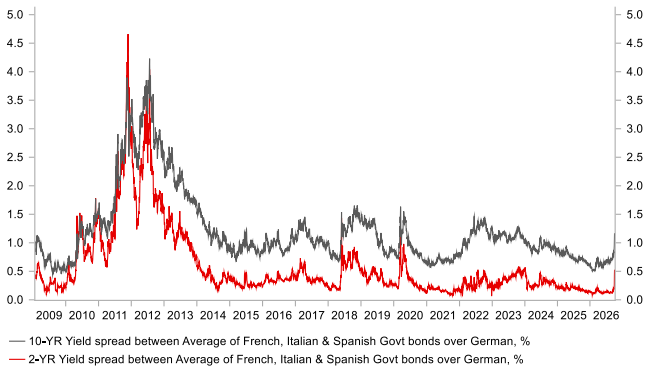
President Lagarde noted earlier this week that the rise in long-term bond yields since last month's policy meeting "will slow growth and reduce pass-through by more than projected in our September exercise". As a result, we no longer expect the ECB to raise rates again as soon as this month, even though euro-area inflation surprised to the upside in September, rising to a fresh high of 3.8%. In the ECB's adverse scenario published in September, updated staff projections showed inflation peaking at just above 4.0% if energy prices remain close to current levels.

CHF staged strong rebound in response to pick-up in safe haven demand and scaling back of expectations or ECB-SNB policy divergence>

Higher bond yields are helping to do some of the ECB's work by tightening financial conditions across the euro area. This supports our view that euro-area rate markets had gone too far in pricing in three to four additional ECB rate hikes. An abrupt reassessment is now underway, resulting in the 2-year German government bond yield falling sharply, by around 35bps from last week's high of 3.35%.

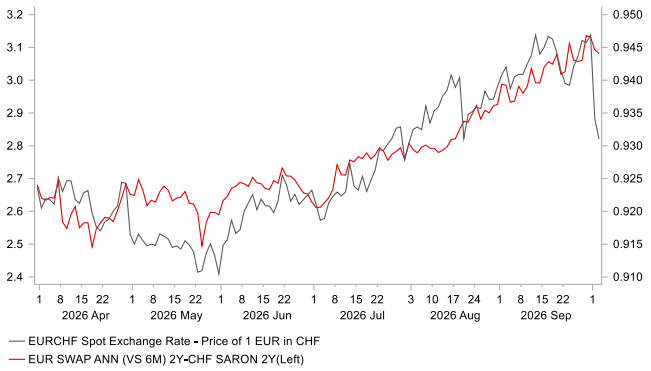
The decline in short-term yields is one reason why the EUR has weakened over the past week. It has been the second-worst performing G10 currency, alongside the other European currencies, the NOK and SEK. In contrast, the traditional regional safe-haven currency, the CHF, has outperformed. This marks a sharp reversal for the CHF, which had weakened over the previous four months. The SNB's reluctance to raise rates had made the franc an increasingly attractive funding currency, but renewed concerns over fragmentation risk in Europe have since triggered a reversal of that trend. Market participants will now be watching closely to see how policymakers in Europe respond to these risks.

ASESSING BROADER FRAGMENTATION RISK



Source: Bloomberg, Macrobond & MUFG

SAFE HAVEN DEMAND TRIGGERS CHF REVERSAL



Source: Bloomberg, Macrobond & MUFG GMR

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
EUR	05/10/2026	09:00	ECB's Lane Speaks				!!!
EUR	05/10/2026	09:00	S&P Global Eurozone Services PMI	Sep F	--	53.0	!!
EUR	05/10/2026	09:30	Sentix Investor Confidence	Oct	--	5.1	!!
GBP	05/10/2026	09:30	S&P Global UK Services PMI	Sep F	--	51.7	!!
EUR	05/10/2026	10:00	ECB'S Schnabel Speaks				!!!
USD	05/10/2026	15:00	ISM Services Index	Sep	55.0	55.4	!!!
EUR	06/10/2026	07:00	Germany Factory Orders MoM	Aug	--	2.5%	!!
EUR	06/10/2026	07:45	France Industrial Production MoM	Aug	--	-0.4%	!!
EUR	06/10/2026	10:00	Retail Sales MoM	Aug	--	-0.6%	!!
USD	06/10/2026	13:30	Trade Balance	Aug	-$83.8b	-$88.6b	!!
CAD	06/10/2026	13:30	Int'l Merchandise Trade	Aug	--	0.77b	!!
USD	06/10/2026	14:05	Fed's Williams Moderates Panel				!!!
JPY	07/10/2026	00:30	Labor Cash Earnings YoY	Aug	3.7%	4.3%	!!
SEK	07/10/2026	07:00	CPI YoY	Sep P	--	0.3%	!!
EUR	07/10/2026	07:00	Germany Industrial Production SA MoM	Aug	--	-1.1%	!!
USD	07/10/2026	19:00	FOMC Meeting Minutes		--	--	!!!
JPY	08/10/2026	00:50	BoP Current Account Balance	Aug	¥3224.6b	¥2988.9b	!!
EUR	08/10/2026	07:00	Germany Trade Balance SA	Aug	--	21.1b	!!
GBP	08/10/2026	09:30	BoE Credit Conditions Surveys				!!
EUR	08/10/2026	11:00	ECB's Lane Speaks				!!
EUR	08/10/2026	12:30	ECB Publishes Account of Sept Meeting				!!
GBP	08/10/2026	13:15	Governor Bailey Speaks				!!!
USD	08/10/2026	13:30	Initial Jobless Claims		--	--	!!
USD	08/10/2026	18:40	Fed's Musalem Speaks				!!!
NOK	09/10/2026	07:00	CPI Underlying YoY	Sep	--	3.0%	!!
CAD	09/10/2026	13:30	Net Change in Employment	Sep	5.0k	-41.7k	!!!
USD	09/10/2026	15:00	U. of Mich. Sentiment	Oct P	48.0	48.1	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- The economic calendar for the week ahead is relatively quiet, with no major economic data releases or central bank policy decisions scheduled. However, the outlook for Fed policy is likely to remain a key focus for markets following the release of the September nonfarm payrolls report. New York Fed President Williams has indicated that there is no urgent need for further rate hikes following the Fed's first increase this month, supporting the case for policymakers to leave rates on hold at the upcoming meeting.

- The release of the minutes from the September FOMC meeting should provide further insight into policymakers' thinking on the future path of policy tightening. In addition, remarks from New York Fed President Williams, St. Louis Fed President Musalem, and Dallas Fed President Logan are all scheduled in the week ahead and could offer further guidance on the policy outlook.

- On the data front, the main US release will be the ISM services survey for September. Business confidence strengthened over the summer, with the latest US PMI survey showing activity at multi-year highs in September. This has helped to reinforce investor confidence that the US economy is holding up better than expected in Q3. The latest GDP data also revealed that the economy has expanded at an annual pace of just over 2% over the past year.

- Outside the US, market participants will also be closely monitoring comments from ECB and BoE officials. ECB President Lagarde has pushed back against expectations of another rate hike as soon as this month, despite September inflation surprising to the upside. Instead, she has highlighted the tightening in financial conditions resulting from higher bond yields as a growing restraint on economic activity and inflation.

- BoE Governor Bailey has already indicated that it is becoming increasingly difficult to ignore upside inflation risks. We expect the BoE to deliver its first rate hike in November. Policymakers are also likely to pay close attention to the UK government's Autumn Budget, which is scheduled for 28 October. Details of the government's fiscal plans could begin to emerge through media leaks in the coming weeks. At the same time, the sharp rise in gilt yields over the summer has reduced the government's room for manoeuvre on fiscal policy, increasing the importance of the Budget for both the rates and currency markets.

New Trade Idea

SHORT EUR/JPY – **OPENED** @ 177.50 (TARGET @ 172.00 & STOP-LOSS @ 181.50)

Fragmentation risks adding to downside risks for EUR/JPY

We are recommending a new short EUR/JPY trade idea. The pair has regained downward momentum in recent weeks after breaking back below the 180.00 level. This move lower could be reinforced by recent developments in Europe. The re-emergence of fragmentation risks is contributing to an unwanted tightening of financial conditions. If widening yield spreads are not addressed, they could reduce the need for the ECB to raise rates as aggressively as the market currently expects in response to higher inflation. Short-term yields in the euro area have already begun to correct lower, weighing on the EUR. In contrast, the JPY should continue to derive support from a faster pace of BoJ rate hikes. While a back-to-back rate increase appears unlikely this month, we expect another hike before the end of the year, helping to narrow yield differentials with the euro area. The JPY could also benefit if financial market volatility increases further, triggering an unwinding of JPY-funded carry trades.

Open Trade Idea

LONG USD/SEK – **OPENED** @ 9.8500 (TARGET @ 10.300 & STOP-LOSS @ 9.600)

Rising bonds yields are weighing more heavily on European currency performance against the USD

We are maintaining our long USD/SEK trade recommendation. The USD has regained upward momentum since the Fed resumed raising interest rates in September. That momentum has continued over the past week even as Fed communication has pushed back against expectations of an October rate hike and US inflation was revised significantly lower over the summer. More recently, however, the USD has benefited from the re-emergence of fragmentation risks within the euro area. The sharp rise in French government bond yields has begun to spill over into other major European bond markets, pushing yields higher across the region. This tightening in financial conditions adds to the headwinds facing growth in the euro area, including Sweden. With the situation in Europe at risk of deteriorating further before improving, we have decided to maintain our long USD/SEK trade recommendation.

FX Portfolio

Trade idea	Notional	Entry Date	Entry Level	Current	S/L	Target	Spot P&L	Carry P&L	Portfolio Contribution
Closed Trades									
Long EUR/USD	USD 5mn	10/05/2024	1.0770	1.0840	1.0570	1.1070	32,498	-3,484	29,014
Long MXN/ZAR	USD 5mn	07/06/2024	1.0300	1.0050	1.0050	1.0850	-121,359	1,812	-119,547
Short EUR/JPY	USD 5mn	14/06/2024	168.00	171.10	171.10	162.50	-92,262	-2,194	-94,456
Long AUD/USD	USD 5mn	05/07/2024	0.6735	0.6585	0.6585	0.7035	-111,359	-1,544	-112,903
Long GBP/SEK	USD 5mn	12/07/2024	13.660	13.920	13.360	14.160	95,168	2,149	97,317
Short NZD/CHF	USD 5mn	02/08/2024	0.5170	0.5000	0.5270	0.5000	164,410	-215	164,195
Short NZD/CAD	USD 5mn	09/08/2024	0.8270	0.8430	0.8430	0.8030	-96,735	-1,578	-98,313
Short USD/JPY	USD 5mn	06/09/2024	143.30	142.80	146.30	138.30	17,446	-7,717	9,729
Long AUD/USD	USD 5mn	27/09/2024	0.6890	0.6810	0.6740	0.7100	-58,055	589	-57,466
Long USD/NOK	USD 5mn	11/10/2024	10.720	11.020	10.500	11.020	139,925	530	140,455
Long EUR/USD	USD 5mn	08/11/2024	1.0760	1.0570	1.0700	1.0100	88,290	3,857	92,147
Long USD/CAD	USD 5mn	06/12/2024	1.4090	1.4390	1.3850	1.4550	106,458	1,471	107,194
Long GBP/USD	USD 5mn	10/01/2025	1.2250	1.2550	1.2550	1.1750	-122,449	-885	-123,334
Short EUR/JPY	USD 5mn	07/02/2025	157.60	161.89	163.00	150.00	-171,320	-9,487	-180,807
Long USD/SEK	USD 5mn	14/03/2025	10.120	9.9200	9.9200	10.420	-98,814	5,245	-93,569
Long USD/CAD	USD 5mn	28/03/2025	1.4300	1.4050	1.4050	1.4750	-87,413	1425	-85,988
Long EUR/NZD	USD 5mn	25/04/2025	1.9040	1.9035	1.8700	1.9600	-1,314	-3,305	-4,619
Short USD/JPY	USD 5mn	16/05/2025	145.95	144.00	149.40	138.30	66,804	9,179	57,625
Long USD/ZAR	USD 5mn	13/06/2025	17.910	18.020	17.650	18.350	30,709	- 1,963	28,746
Short USD/NOK	USD 5mn	27/06/2025	10.070	10.060	10.270	9.6000	4,965	104	5,070
Long EUR/GBP	USD 5mn	04/07/2025	0.8625	0.8674	0.8475	0.8850	27,978	-4,894	22,084
Long USD/JPY	USD 5mn	18/07/2025	148.30	147.70	145.70	153.30	-19,335	11,240	-8,095
Long NOK/CHF	USD 5mn	08/08/2025	7.8727	7.9760	7.7520	8.1151	65,607	12,022	77,629
Short USD/JPY	USD 5mn	15/08/2025	147.00	147.80	149.50	143.50	-27,211	-13,990	-41,201
Long NZD/SEK	USD 5mn	12/09/2025	5.5557	5.4449	5.4168	5.6945	-99,717	1,511	-98,206
Short USD/JPY	USD 5mn	07/11/2025	153.40	156.00	156.00	148.50	-84,746	-4,292	-89,038
Long EUR/GBP	USD 5mn	19/09/2025	0.8710	0.8730	0.8550	0.8900	11,481	-15,091	-3,610
Short CAD/CHF	USD 5mn	03/10/2025	0.5705	0.5765	0.5825	0.5525	-53,041	-16,310	-69,351
Long AUD/GBP	USD 5mn	12/12/2025	0.4980	0.5200	0.4980	0.5280	220,884	-1,297	219,587
Long EUR/JPY	USD 5mn	12/01/2026	184.50	181.50	181.50	190.00	-81,301	4,384	-76,917
Short EUR/USD	USD 5mn	09/03/2026	1.1570	1.1750	1.1750	1.1300	-105,877	5,936	-99,942
Long AUD/SEK	USD 5mn	11/05/2026	6.6850	6.6640	6.5700	6.8950	-15,609	7,665	-7,944
Short GBP/CHF	USD 5mn	30/03/2026	1.0600	1.0670	1.0800	1.0200	-32,994	-21,659	-54,603
Long USD/NOK	USD 5mn	19/06/2026	9.6900	9.8500	9.5000	10.100	82,559	-728	81,832
Long EUR/GBP	USD 5mn	17/07/2026	0.8500	0.8575	0.8395	0.8700	44,118	-3,053	41,065
Short USD/BRL	USD 5mn	10/07/2026	5.1150	5.1900	5.2600	4.9600	-73,314	61,095	-12,219
Long AUD/JPY	USD 5mn	07/08/2026	111.20	114.50	109.20	114.50	148,381	6,286	154,667
Short EUR/JPY	USD 5mn	04/09/2026	181.30	180.90	184.30	186.30	11,031	-1,818	9,214
New Trades									
Short EUR/JPY	USD 5mn	02/10/2026	177.50		181.50	172.00			
Open Trades									
Short USD/SEK	USD 5mn	18/09/2026	9.8500	10.049	9.6000	10.300	101,015	3,173	104,188

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

FX Positioning

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

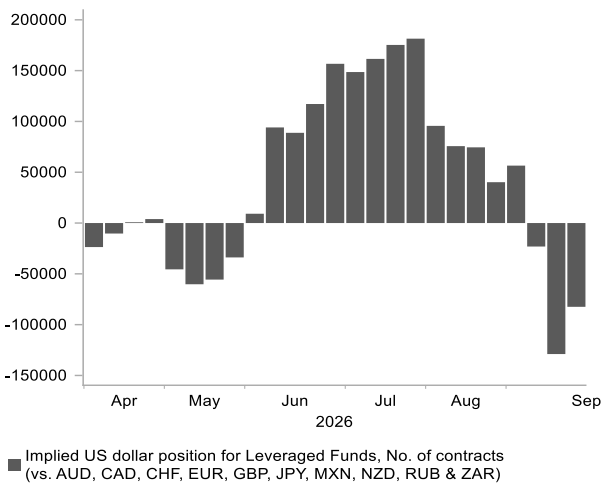
BREAKDOWN BY INVESTORS

Asset Manager/Institutional		
	No. of contracts	Z-Score
AUD	-55,353	-0.89
BRL	59,481	0.45
CAD	-24,121	0.71
CHF	-35,523	0.19
EUR	216,483	-0.96
GBP	-115,805	-1.12
JPY	41,629	0.23
MXN	45,506	0.25
NZD	-11,485	0.86
USD	-143,645	-0.39
ZAR	22,833	1.83

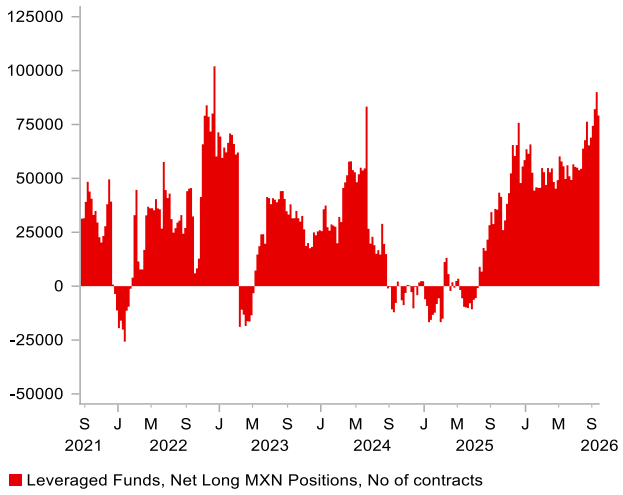
Leveraged Funds		
	No. of contracts	Z-Score
AUD	58,726	1.47
BRL	14,917	1.35
CAD	-46,861	0.59
CHF	-16,457	-1.74
EUR	-26,694	-0.94
GBP	13,239	-1.52
JPY	7,423	1.20
MXN	79,188	1.66
NZD	-4,787	0.48
USD	-82,439	-1.92
ZAR	3,745	0.24

Asset Manager/ Insitutional & Leveraged Funds		
	No. of contracts	Z-Score
AUD	3,373	0.37
BRL	74,398	0.75
CAD	-70,982	0.74
CHF	-51,980	1.22
EUR	189,789	-0.99
GBP	-102,566	-1.34
JPY	49,052	0.68
MXN	124,694	1.14
NZD	-16,272	0.91
USD	-226,084	-0.88
ZAR	26,578	1.64

USD SHORT BUILD-UP



MULTI-YEAR HIGHS FOR MXN LONGS



Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 22nd September 2026)

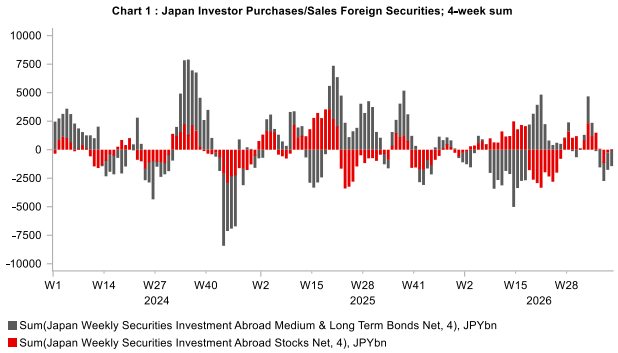
Key Takeaways:

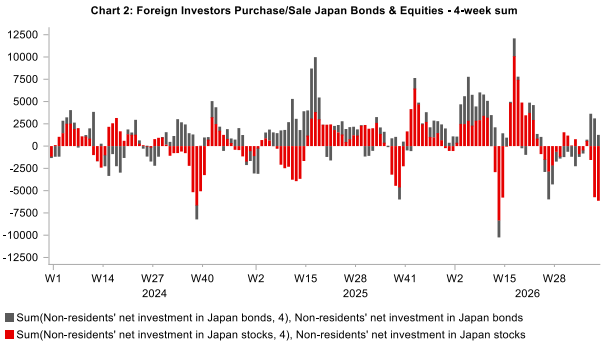
- The latest IMM positioning data for the week ending 22 September showed that leveraged funds reduced short USD positions after the Fed delivered its first rate hike on 16 September. Prior to the hike, leveraged funds had been positioned for further USD weakness. The recent sharp appreciation of the USD has therefore likely been reinforced by a short squeeze. This appears particularly evident against the MXN, where leveraged funds had built up their largest long positions. Leveraged funds also held sizeable long positions in the AUD. In contrast, they remained long USD against both the CAD and EUR.

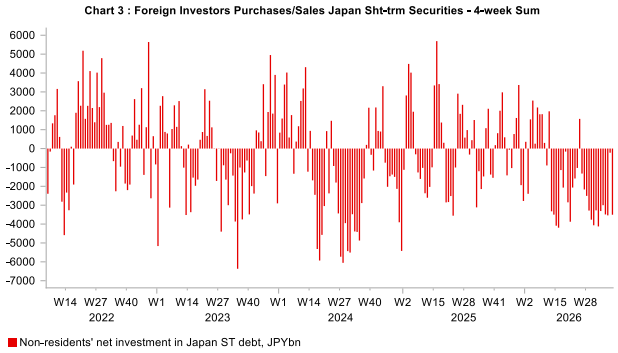
- The largest weekly changes in leveraged fund positioning were: (i) an increase in short CAD positions of 7,839 contracts; (ii) a reduction in short GBP positions of 5,639 contracts; (iii) a decrease in long JPY positions of 15,747 contracts; and (iv) a decrease in long MXN positions of 10,820 contracts. In the previous week, long MXN positions had reached their highest level since the end of 2022.

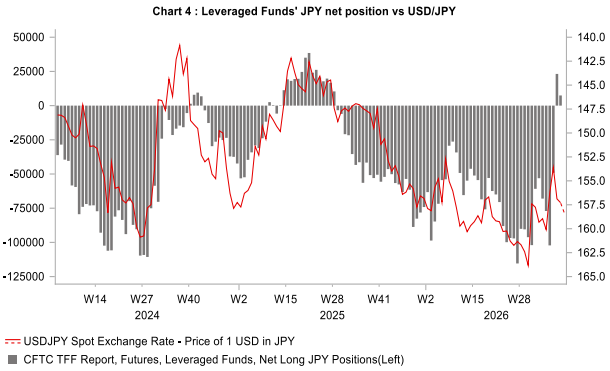
- Our positioning z-score analysis indicates that aggregate short USD positions remained the most stretched relative to their respective two-year ranges.

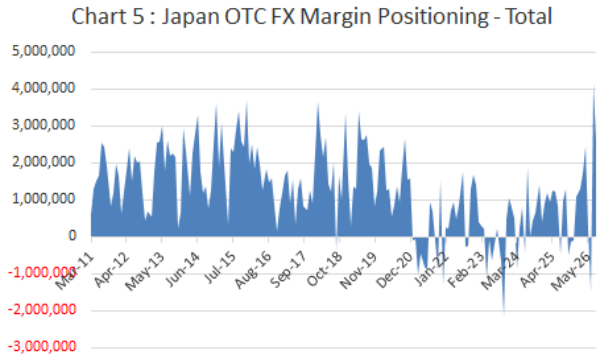
JPY Flows – High Frequency

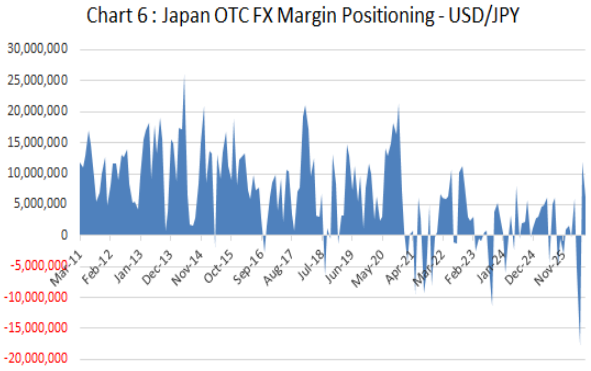












Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- The MoF weekly cross border flow data released yesterday for the week ending last Friday revealed another week of foreign bond sales by Japanese investors. The selling totalled JPY 685bn, the second consecutive week of selling and the fourth out of the last six weeks. The 4-week sum total has shown net sales for five consecutive weeks. Foreign equity buying picked up last week with purchases totalling JPY 226bn. The largest in six weeks with the 4-week sum showing net sales for the last three weeks (Chart 1).

- Chart 2 shows some very heavy selling the other way with foreign investors selling of Japanese equities. Last week saw the third consecutive week of selling, totalling JPY 362bn after heavier sales the previous two weeks. As a result, the 4-week sum of sales reached JPY 6,135bn, the largest total since March following the start of the US-Iran conflict. The yen has been strengthening and the turn in momentum may have encouraged investors to cut long Japanese equity positions as well. Chart 3 covers foreign investor buying of short-term securities in Japan and selling has been sustained through much of this year. Rising yields and a narrower short-dated cross-currency basis may be deterring demand. Chart 4 highlights the impact of the recent intervention and continued rhetoric opposing yen weakness with a large liquidation in yen short positions reported by IMM. The shift has been so dramatic that Leveraged Funds are now long yen. What is unusual is that the spot rate has failed to move as you'd expect based on the scale of the positioning move.

- Charts 5 and 6 cover the positioning data amongst the retail FX margin sector of the market. What we have seen here is substantial yen selling with USD/JPY long positions built following the intervention. So retail flows have been counter to the government's attempt to strengthen the yen highlighting scepticism over the chance of success.

FX Weekly Options Flow Report

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

METHODOLOGY

To analyse the DTCC FX options flow data we group by currency pair and expiry bucket (1W, 1W to 1M, 1M to 3M and >3M). We then scale net positioning between -1 and 1, where positive values indicate call demand exceeds put demand and negative values indicate the opposite.

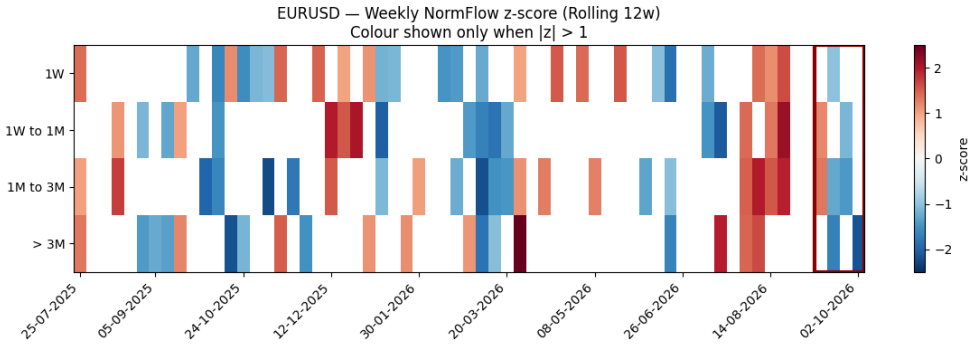
$$NormalizedFlow_t = \frac{Calls_t - Puts_t}{Calls_t + Puts_t}$$

To identify unusually strong positioning, rolling z-scores are calculated using a 12-week lookback window:

$$Z_t = \frac{NormalizedFlow_t - \mu_{12}}{\sigma_{12}}$$

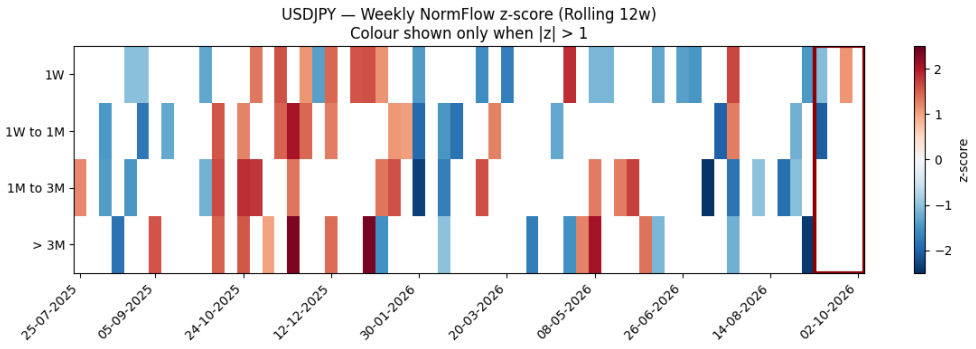
where μ_{12} and σ_{12} represent the rolling 12-week mean and standard deviation. The heatmaps display these z-scores, with red indicating unusually call-heavy positioning, blue indicating unusually put-heavy positioning, and white cells representing weeks where $|z| \leq 1$, thereby filtering out statistically uninteresting positioning activity.

Recent EUR (vs. USD) put demand has largely tracked front-end rate spreads, however the acceleration of OAT-Bund widening is a now a dominant weigh on the EUR



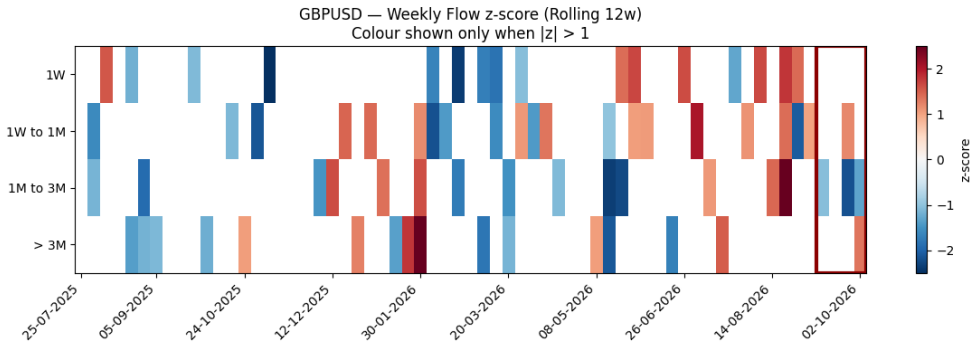
Source: Macrobond, Bloomberg & MUFG Research

Mixed flows as net falls below the threshold for several weeks now



Source: Macrobond, Bloomberg & MUFG Research

Mixed flows as net falls below the threshold across key tenors

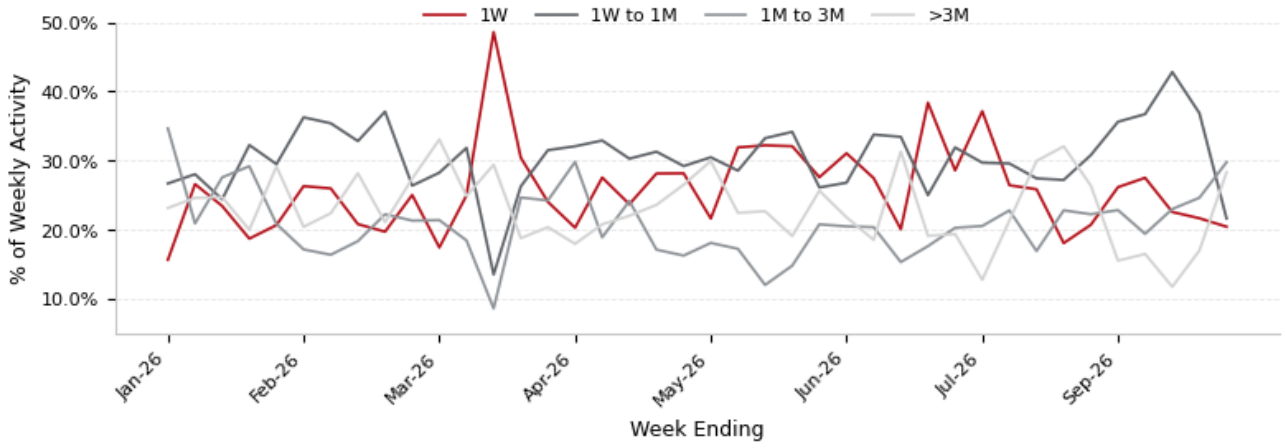


Source: Macrobond, Bloomberg & MUFG Research

EUR/USD WEEKLY FLOW ANALYSIS

During September, EUR/USD option activity shifted away from the short-dated, event-driven positioning that characterised parts of Q2 and Q3. The share of activity in the 1W bucket remained relatively subdued, fluctuating around 20–27%, consistent with a market not primarily focused on near-term data events, but rather building medium-term directional exposure.

Activity in the 1W–1M bucket rose steadily through the month, reaching around 30% of weekly flow at one stage. The shift was most pronounced following the acceleration of the OAT-Bund spread through mid-September, catalysed by the Scope Ratings downgrade on September 18, as investors began pricing a sustained French political risk premium ahead of the April 2027 presidential election.



Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- During September, EUR/USD option flows underwent a sharp reversal that aligns closely with the sharp widening of the OAT-Bund spread from ~90bps to ~146bps. After a sustained period of EUR-positive flows through August, weekly flow z-scores turned increasingly negative across the 1W–1M, 1M–3M, and longer-dated maturity buckets. The shift was most pronounced in the 1M–3M tenor, where put demand began to outweigh call demand relative to the prior 12-week history.

- The current profile is noticeably skewed toward EUR downside protection, with roughly 60% of activity concentrated in tenors beyond one month. The breadth of the move across the maturity spectrum, combined with 1M risk reversals turning bearish and approaching levels last seen during the 2024 French elections, suggests this was not simply short-term event hedging but a structural deterioration in EUR sentiment amongst market participants.

- FX Implication: Our analysis shows that the sharp widening of OAT-Bund spreads has triggered a clear pick-up in demand for EUR puts. **This points to the potential for further EUR weakness should fragmentation risks intensify.**

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