09 October 2026

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Fundamentals aligned for a stronger USD

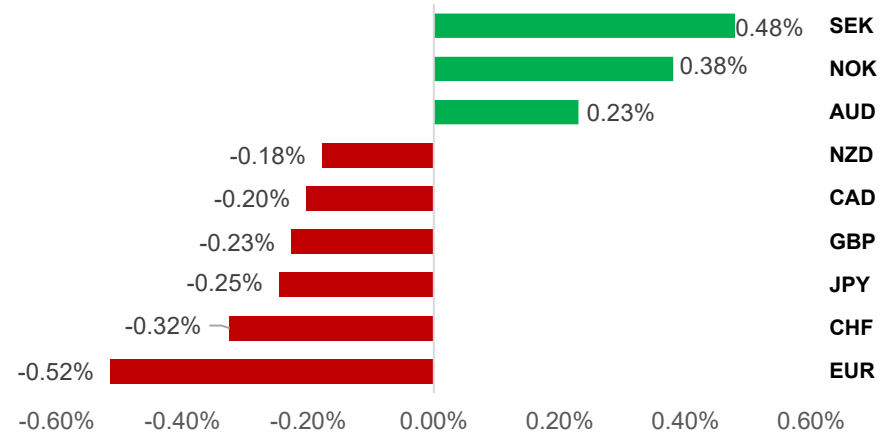
FX View: The USD continues to trade close to year-to-date highs although it has lost some upward momentum over the past week. Absent a significant upside surprise from the US CPI report for September in the week ahead, the Fed is likely to leaves rates on hold this month. Fed Chair Kevin Warsh is scheduled to speak at the IMF Annual meetings in Thailand for the first time since the September FOMC meeting. Recently the stronger USD has been driven increasingly by negative developments overseas. Building concerns over the negative fallout for the euro area from a more prolonged energy price shock and higher borrowing costs particularly for France have reinforced the USD's upward momentum. The French government's latest budget plans have failed to restore investor confidence, and there is no clear near-term catalyst to trigger a turnaround in bearish sentiment. It leaves the EUR vulnerable to further weakness in the week ahead.

Trade Ideas: We are maintaining long USD/SEK and short EUR/JPY trade ideas.

JPY Flows – Portfolio securities: The MoF Transactions in International Securities data for the month of September was released yesterday and unsurprisingly, Japanese investors were sellers of foreign bonds. Lifers were sellers of foreign bonds by the largest amount since March. Perhaps the most persistent yen negative flow has been Investment Trust purchases of foreign equities.

EUR price action analysis during periods of weakness: Our analysis highlights that the CHF tends to outperform during periods of EUR weakness reflecting its role as a regional safe haven currency. In contrast, the HUF and NOK have tended to underperform during periods of EUR weakness.

MIXED G10 FX PERFORMANCE



Source: Bloomberg, close on 9th October 2026 (Weekly % Change vs. USD)

FX: Lacking clear catalyst to turnaround bearish EUR sentiment

USD is trading close to year-to-date highs

The USD has been consolidating at higher levels over the past week with the dollar index trading at close to year-to-date highs. It has been a similar story in global bond markets where the sell-off has lost some momentum over the past week. At the same time, the US equity markets hit fresh year-to-date highs driven by AI/tech related stocks. After hitting a low in late July, the Nasdaq equity index has since risen by around 13% despite the sharp adjustment higher in global bond yields. The tentative improvement in global investor risk sentiment has encouraged a relief rebound for the high beta G10 commodity currencies of the AUD and CAD over the past while the SEK has partially reversed sustained in September.

Equity market volatility remains low compared to pick-up in bond market volatility preventing bigger unwind of FX carry

The pick-up in bond market volatility has not yet spilled over into the US equity where the VIX index measure of equity market volatility remains close to year-to-date lows. FX market volatility has picked up more particularly for emerging market currencies as the USD has strengthened. However, it is still at relatively low levels which helped to curtail the risk of a bigger unwind of FX carry trades. The biggest loser amongst emerging market currencies since the start of September has been the MXN (-6.5% vs. USD) while other high yielding emerging market currencies such as the BRL (+2.5%) have held up much better boosted by favourable domestic political developments. Flavio Bolosnaro's victory in the first round of the presidential election has triggered a significant positive reassessment of the outlook for Brazilian assets and the real. A shift to more market friendly policies including plans for tighter fiscal policy carries even more weight given building market concerns over debt sustainability triggered by rising borrowing costs.

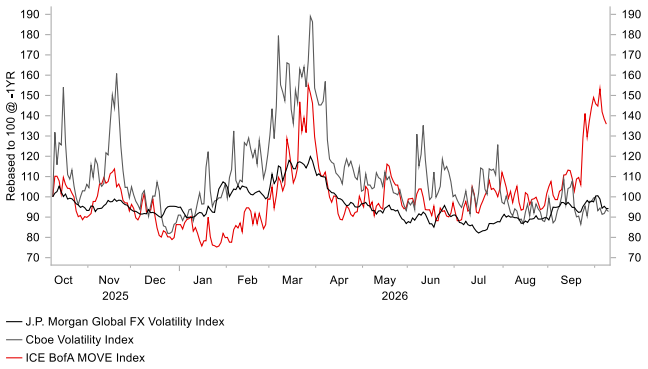
Heightened fiscal & political risks in France reinforcing EUR sell-off on top of energy price shock & Fed rate hikes

The French government bond market is currently the focal point for building fiscal concerns which has reinforced downward pressure for the EUR from the ongoing energy price shock and the Fed's recent decision to begin rising rates. As we highlighted in our latest FX Focus report (click here), the French government bond have suffered their biggest sell-off in recent months since the autumn of 2022 during the last energy price shock triggered by Russia invading Ukraine. It has widened the yield spread between Frech and German government bonds to the highest levels since the euro-zone sovereign debt crisis between 2011 and 2012. Borrowing costs for France have risen to the highest level since 2022 reinforcing market pressure on the government to adopt credible fiscal tightening measures to restore investor confidence.

Budget plans fail to restore confidence in French government debt

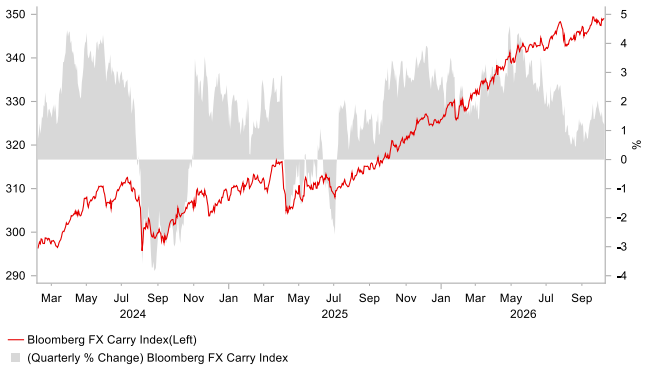
However, the recent unveiling of the government's budget plans for next year failed to restore investor confidence. Market participants remain sceptical over whether the

LIMITED SPILLOVER FROM BOND MARKET VOLATILITY



Source: Bloomberg, Macrobond & MUFG GMR

FX CARRY HAS PROVEN RESILEINT SO FAR



Source: Bloomberg, Macrobond & MUFG GMR

minority government will be able to implement fiscal tightening as planned ahead of next year's presidential elections, and the plans are based on overly optimistic growth forecasts similar to this year. Higher borrowing costs and energy prices alongside heightened political uncertainty will put a dampener on growth in 2027. On the other hand, it has been reassuring that RN leader Le Pen who is the current front runner to be next president is calling for tighter fiscal policy and has outlined a shadow budget and long-term fiscal calling to burnish her deficit-cutting credentials which include holding a referendum to introduce a German-style debt brake. The true test of her ability and willingness to implement more aggressive fiscal tightening will only come after the presidential elections, and until then market participants are understandably likely to remain sceptical.

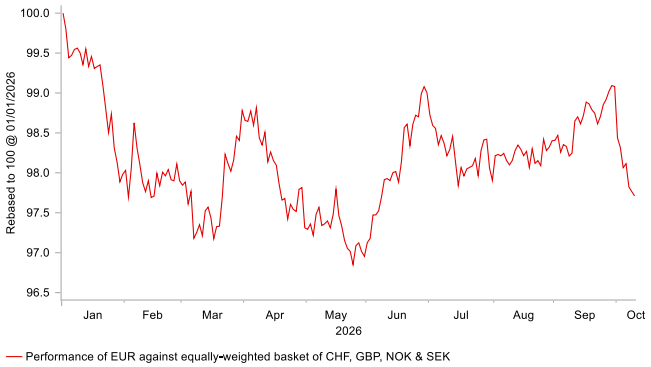
Risks remain skewed to the downside for EUR without clear catalyst for a turnaround in increasingly bearish sentiment

It leaves the EUR on fragile ground heading into year end without a clear catalyst to trigger a turnaround in sentiment. One potential external catalyst would be deal to end the conflict between the US and Iran, and help ease the risk of a more prolonged energy price shock. The price of natural gas in Europe has rien back up towards year-date highs over the past week after the run up over the summer highlighting that market participants have grown increasingly pessimistic over a breakthrough in peace talks. Rising borrowing costs complicates the ECB's job in setting monetary policy for the euro area. The unwanted tightening in financial conditions is a headwind for economic growth and will help ease upside inflation risks so could curtail the need for further ECB rate hikes. It has already encouraged euro-zone rate market participants to pare back expectations for more aggressive ECB hikes including another hike as soon as this month. The ECB's biggest concern though if yield spreads continue to widen out sharply between euro area members will be the potential for disruption to the smooth transmission of monetary policy. According to Bloomberg, President Lagarde reassured euro area finance ministers at a behind closed door meeting this week that the ECB has the instruments to counter warranted, disorderly market dynamic such as the Transmission Protection Instrument (TPI). However, there was no indication that they are currently considering any form of imminent market intervention.

Rising bond yields calls for safety first budget from UK government. GBP has benefitted recently from shift in focus for fiscal risks.

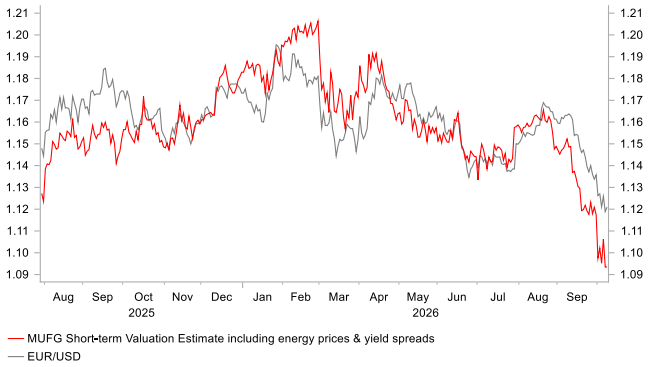
Rising government borrowing costs are also increasing pressure on the UK government to adopt a more cautious approach when laying out their fiscal plans in the upcoming Budget scheduled to be released on 28th October. It will be crucial for new Labour leader Andy Burham to lay out credible fiscal policy plans preserving the government's fiscal headroom in order to maintain market confidence. A less risky budget that delays bigger fiscal policy changes until a later date would help to dampen downside risks for the GBP. The GBP has risen to fresh-year to-date highs against the EUR over the past week as the market's focus has shifted towards risk in the euro area.

EUR SELL-OFF BROADENS OUT



Source: Bloomberg, Macrobond & MUFG

RISKS SKEWED TO DOWNSIDE FOR EUR



Source: Bloomberg, Macrobond & MUFG GMR

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
USD	12/10/2026	17:10	Fed's Hammack Speaks				!!
AUD	13/10/2026	01:30	RBA Minutes of Sept. Policy Meeting				!!
EUR	13/10/2026	07:00	Germany CPI YoY	Sep F	--	3.3%	!!
USD	13/10/2026	08:45	Fed's Waller Speaks				!!!
USD	13/10/2026	11:00	NFIB Small Business Optimism	Sep	98.0	98.7	!!
USD	13/10/2026	15:00	Existing Home Sales	Sep	3.96m	3.98m	!!
EUR	14/10/2026	04:45	ECB's Moulin Speaks				!!
SEK	14/10/2026	07:00	CPI YoY	Sep F	--	1.1%	!!
USD	14/10/2026	10:40	Fed Governor Bowman Speaks				!!!
USD	14/10/2026	13:30	Core CPI MoM	Sep	0.2%	0.3%	!!!
USD	14/10/2026	19:00	Fed Releases Beige Book				!!
CAD	14/10/2026	Tbc	BoC'S Macklem Joins Fireside Chat				!!!
AUD	15/10/2026	01:30	Employment Change	Sep	20.0k	39.5k	!!!
JPY	15/10/2026	05:30	Industrial Production MoM	Aug F	--	-1.7%	!!
GBP	15/10/2026	07:00	Monthly GDP (MoM)	Aug	--	0.4%	!!
CHF	15/10/2026	07:30	Producer & Import Prices MoM	Sep	--	0.7%	!!
EUR	15/10/2026	07:45	France CPI YoY	Sep F	--	3.00%	!!
EUR	15/10/2026	10:00	Industrial Production SA MoM	Aug	--	-0.1%	!!
USD	15/10/2026	13:30	Retail Sales Advance MoM	Sep	0.3%	1.1%	!!!
USD	15/10/2026	13:30	Initial Jobless Claims		--	--	!!
USD	15/10/2026	13:30	PPI Final Demand MoM	Sep	0.5%	0.4%	!!
GBP	16/10/2026	03:00	BoE's Bailey in Fireside Chat				!!!
USD	16/10/2026	04:30	Fed's Warsh in Fireside Chat				!!!
SEK	16/10/2026	07:00	Unemployment Rate	Sep	--	8.5%	!!
EUR	16/10/2026	10:00	Trade Balance SA	Aug	--	5.0b	!!
EUR	16/10/2026	10:00	CPI YoY	Sep F	--	3.8%	!!
USD	16/10/2026	13:30	Import Price Index MoM	Sep	--	0.7%	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- The main economic data release in the week ahead will be the latest US CPI report for September. The report is expected to show that headline inflation picked up to 3.6% in September. The rise in headline inflation since the start of the US-Iran conflict has been driven almost entirely by higher energy prices. Market participants and the Fed will be watching the core inflation reading closely for any tentative signs that inflation pressures are broadening. Core inflation picked up in August, driven by the services sector, increasing by 0.3% m/m, although it is expected to ease back to 0.2% m/m in September. Another upside surprise would likely be required to revive market expectations of a back-to-back Fed rate hike as soon as this month. The release of the latest US retail sales report for September is also expected to provide confirmation that consumer spending continued to grow strongly in Q3.

- Toward the end of the week, Fed Chair Warsh is scheduled to participate in a fireside chat at the IMF Annual Meetings in Thailand. He has not spoken publicly since the September FOMC meeting, so his comments will be watched closely for further guidance on the policy outlook ahead of the October meeting.

- Other central bank speakers around the IMF's Annual meetings in Thailand include BoE MPC members Bailey, Pill, Greene and Breeden. The comments will be watched closely to see if the BoE sends a clear signal that they are planning to hike rates from next month. The close proximity of the UK government's upcoming budget on 28th October may still discourage the BoE from sending a definitive signal over a November hike until uncertainty over the fiscal policy outlook has cleared. While higher government borrowing costs are contributing to tighter financial conditions, we still expect the BoE to raise rates next month.

Open Trade Ideas

SHORT EUR/JPY – **OPENED** @ 177.00 (TARGET @ 171.00 & STOP-LOSS @ 181.00)

Fragmentation risks adding to downside risks for EUR/JPY

We are maintaining a 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.

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
Open Trades									
Short USD/SEK	USD 5mn	18/09/2026	9.8500	9.9950	9.6000	10.300	75,127	4,759	79,886
Short EUR/JPY	USD 5mn	02/10/2026	177.00	177.30	181.00	171.00	-7,062	942	-6,120

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.

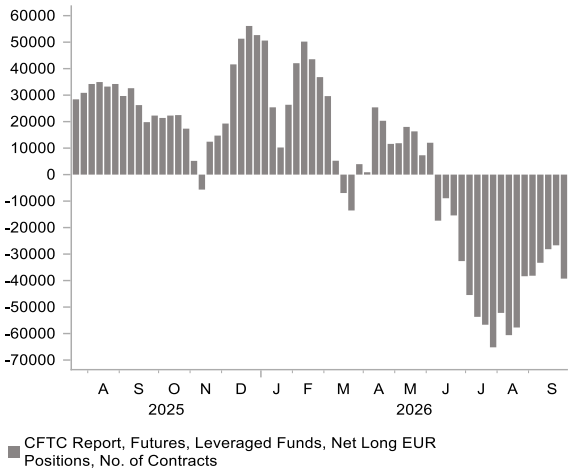
BREAKDOWN BY INVESTORS

Asset Manager/Institutional	No. of contracts	Z-Score
AUD	-73,199	-1.44
BRL	67,015	0.68
CAD	-27,581	0.65
CHF	-36,411	0.11
EUR	220,603	-0.89
GBP	-128,544	-1.39
JPY	51,634	0.40
MXN	16,251	-0.94
NZD	-21,228	0.37
USD	-89,260	-0.39
ZAR	20,720	1.57

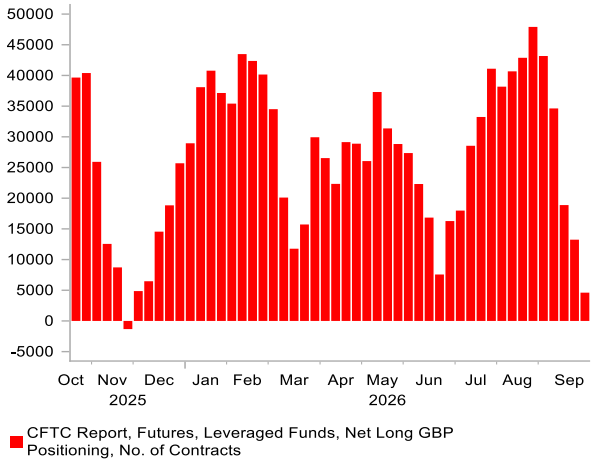
Leveraged Funds	No. of contracts	Z-Score
AUD	60,592	1.50
BRL	9,553	0.78
CAD	-69,644	-0.52
CHF	-13,995	-1.32
EUR	-39,265	-1.33
GBP	4,606	-2.14
JPY	-14,161	0.63
MXN	80,587	1.67
NZD	-1,066	0.86
USD	-21,861	-1.92
ZAR	4,654	0.37

Asset Manager/ Insitutional & Leveraged Funds	No. of contracts	Z-Score
AUD	-12,607	0.09
BRL	76,568	0.80
CAD	-97,225	0.38
CHF	-50,406	1.38
EUR	181,338	-1.06
GBP	-123,938	-1.74
JPY	37,473	0.55
MXN	96,838	0.57
NZD	-22,294	0.68
USD	-111,121	-0.88
ZAR	25,374	1.54

JUMP IN SHORT EUR POSITIONS



GBP LONGS SCALED BACK



Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 29th September 2026)

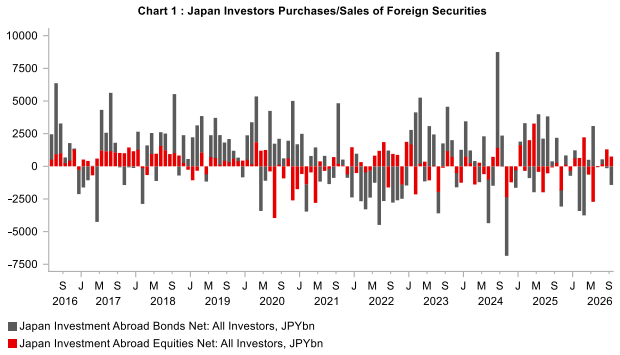
Key Takeaways:

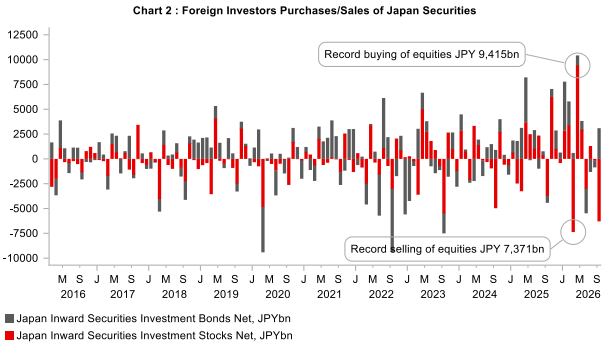
- The latest IMM positioning data for the week ending 29th September showed that leveraged funds reduced short USD positions for the second consecutive week. The positioning data highlights that the recent sharp strengthening of the USD has been reinforced by a squeeze of short positions although long MXN positions remained elevated. The biggest short USD positions were held against the AUD and MXN in the latest week, although they are largely offset now by long USD positions against the CAD, EUR and JPY.

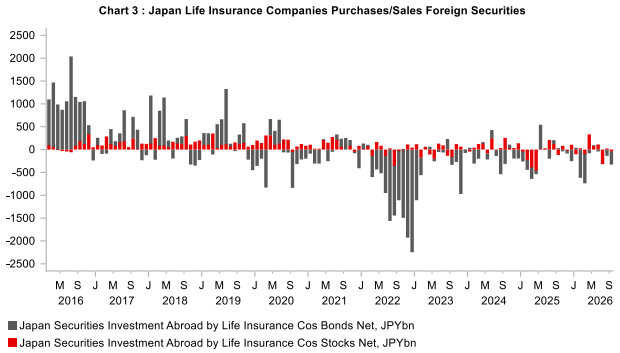
- The largest weekly changes in leveraged fund positioning were: (i) an increase in short CAD positions of 22,783 contracts; (ii) an increase in short EUR positions of 12,571 contracts; (iii) a decrease in long GBP positions of 8,633 contracts; and (iv) an increase in short JPY positions of 21,584 contracts. In the previous week, long MXN positions had reached their highest level since the end of 2022. It was the largest short EUR position since the middle of August.

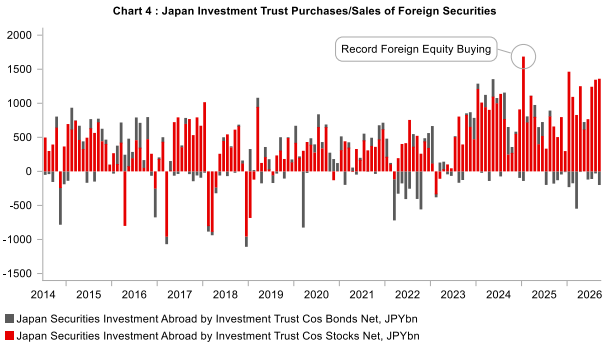
- Our positioning z-score analysis indicates that long GBP positions were the smallest relative to their respective two-year ranges.

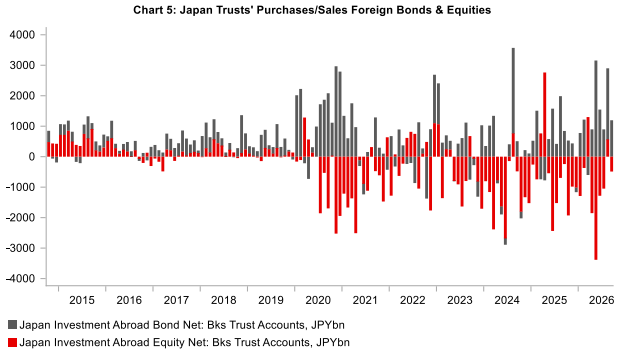
JPY Flows – Portfolio securities & by investor type

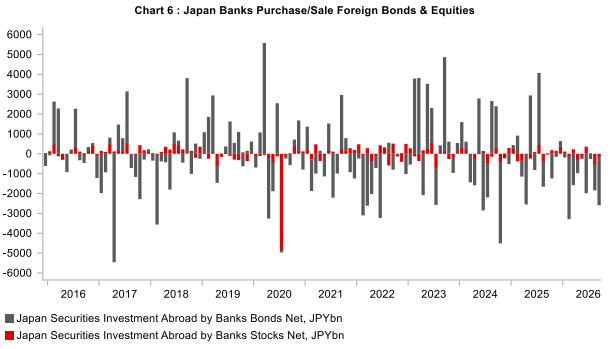












Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- The MoF Transactions in International Securities data for the month of September was released yesterday and unsurprisingly, given global fixed income market conditions, Japanese investors were sellers of foreign bonds, totalling JPY 1,426bn, the fifth month of sales so far this year with total sales of JPY 4,191bn, the first year-to-date period of sales since 2022. We know from other data that a considerable part of that selling is US debt specific. However, purchases of foreign equities has continued and JPY 749bn worth of buying in September took the year-to-date buying to JPY 2,276bn (Chart 1).

- Interestingly, the dire fixed income sentiment in September was not reflected in foreign investor flows into Japan with purchases of JPY 3,091bn worth of Japan bonds, the largest total since January (Chart 2). The buying came in a month in which the BoJ raised rates and could be an indication that the monetary policy setting in Japan is easing concerns over inflation risks. The market is now priced for the BoJ policy rate to hit 2.00% next year and the JGB yield curve has been flattening. Auctions this week (10yr & 30yr) both went well with signs of stronger demand. The fixed income turmoil abroad was more reflective in the equity flow – foreign investors sold JPY 6,294bn worth, the largest selling since March following the start of the conflict in the Middle East.

- Chart 3 shows Lifers were sellers of foreign bonds (JPY 289bn), by the largest amount since March. Perhaps the most persistent yen negative flow has been Investment Trust flows with JPY 1,360bn worth of foreign equity buying in September. On a 3mth sum basis foreign equity buying totalled JPY 3,949bn, the largest 3mth total on record. These purchases are largely unhedged and on an annualised basis is approaching JPY 16trn (over USD 100bn) underlining the impact of the expanded NISA limits announced in 2024. Despite the fixed income turmoil in September Chart 5 indicates that Japan Trusts (GPIF included) were once again sellers of foreign equities and buyers of bonds.

EUR price action analysis during periods of weakness

EUR weakness has become increasingly broad-based in recent weeks. Rather than focusing on individual EUR crosses, our framework combines the breadth and magnitude of EUR declines to identify periods when weakness is significant across the FX market. The latest reading falls into our 'Severe EUR Weakness' regime, with EUR declining broadly across the currencies in our basket. We use the framework to answer two questions. (1) Which currencies have historically outperformed or underperformed when EUR weakness becomes more severe? (2) Does that initial pattern persist once the shock has occurred?

METHODOLOGY

Our framework identifies periods when EUR weakness is both broad-based and unusually large. We use all G10 EUR crosses daily spot data covering the period 2000 to present and calculate two indicators each week.

1. EUR weakness breadth - we calculate the proportion of EUR crosses in which EUR declined during the week:

$$Breadth_t = \frac{\text{Number of EUR crosses falling}}{\text{Number of available EUR crosses}}$$

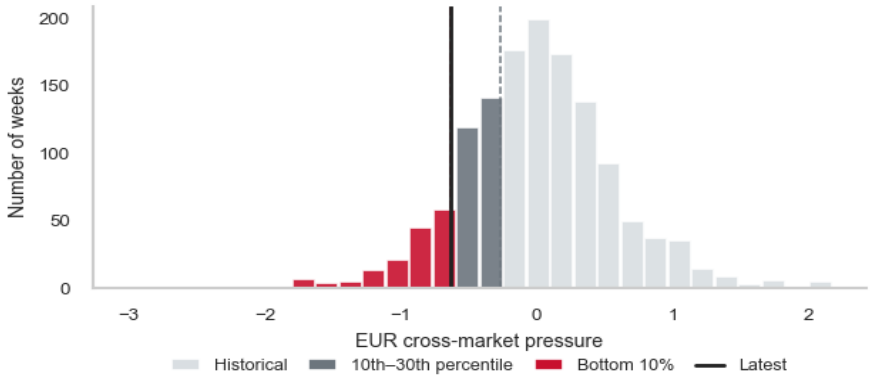
2. EUR pressure - standardised EUR cross's weekly return relative to its own historical volatility and take the average across currencies:

$$EUR\ Pressure_t = \text{Average EUR cross return z-score}$$

Regime classification

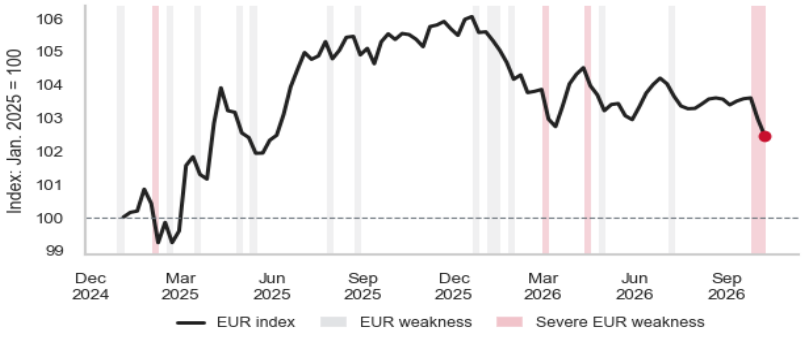
We combine breadth and pressure into three regimes; (1) Normal: no broad and unusually large EUR decline. (2) EUR Weakness: at least 75% of EUR crosses decline and EUR pressure falls into the bottom 30% of its rolling one-year distribution. (3) Severe EUR Weakness: at least 75% of EUR crosses decline and pressure falls into the bottom 10%.

Latest EUR price action falls in the bottom 10% of EUR-cross market pressure – *2000 to present.*



Source: Macrobond, Bloomberg & MUFG Research

Chart highlight back-to-back severe EUR weakness in recent periods

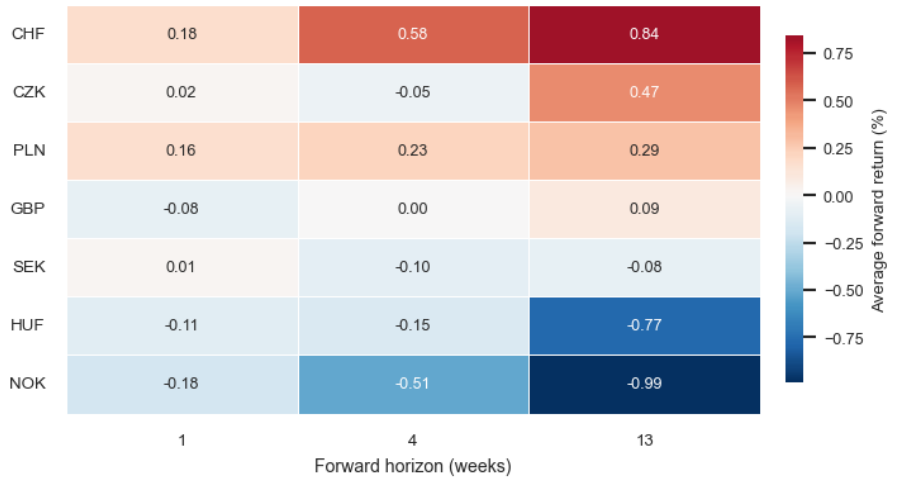


Source: Macrobond, Bloomberg & MUFG Research

THE POST-SHOCK PHASE: LEADERSHIP ROTATES

Our analysis highlights forward returns are notably smaller than the initial FX adjustment that occurs during the EUR-shock week itself. CHF emerges as the clearest post-shock beneficiary, the average relative performance increases from +0.7% over the following four weeks to +1.1% over 13 weeks.

CHF emerges as a strongest performed



Source: Macrobond, Bloomberg & MUFG Research

Key Takeaways:

- Our analysis highlights that the CHF tends to outperform during periods of EUR weakness. It is the main beneficiary amongst regional currencies from the loss of confidence in th EUR consistent with the CHF's role as regional safe haven currency.

- In contrast, the HUF and NOK have tended to underperform during periods of EUR weakness. So far this year both the HUF and NOK have outperformed. If the EUR continues to weaken driven building concerns over fiscal risk in the euro area and downside risks from a more prolonged energy price shock, our analysis indicates that this year's HUF and NOK gains could begin to reverse.

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