23 October 2026

LEE HARDMAN
Senior Currency Analyst

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

ABDUL-AHAD LOCKHART
Currency Analyst

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

Research Portal:
Global Markets Research - MUFG Research

No relief in sight for the EUR

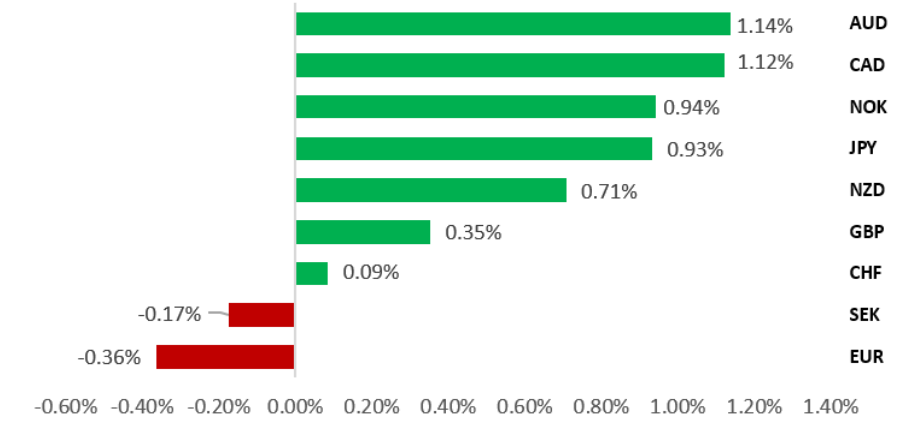
FX View: The EUR has continued to weaken over the past week, falling to fresh year-to-date lows against both GBP and JPY. Rising energy prices and fiscal risks in France have reinforced EUR weakness ahead of the ECB's upcoming policy meeting, making it more difficult for the ECB to calibrate monetary policy. Tighter financial conditions are likely to reduce the extent to which the ECB needs to raise rates in response to higher energy prices. In contrast, upcoming policy updates from the Fed and BoJ could strike a relatively more hawkish tone while leaving rates on hold, signalling that more work remains to address upside inflation risks. Investors have become more risk-averse this week, boosting safe-haven demand for the CHF and JPY. The JPY's negative correlation with global equity market performance has strengthened. We expect challenging financial market conditions to persist in the week ahead reflecting ongoing concerns over higher government bond yields, energy prices and the recent paring back of AI-related investment optimism.

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

IMM FX Positioning: The largest weekly changes in leveraged fund positioning were: (i) an increase in short CAD positions of 8,487 contracts; (ii) an increase in short EUR positions of 23,740 contracts; (iii) an increase in short JPY positions of 8,630 contracts; (iv) a decrease in long CAD positions of 11,363 contracts; and v) an increase in short NZD positions of 10,832 contracts. It was the largest short EUR position since October 2021

What happens to the dollar after US tech credit cracks? US IG tech-credit stress and falling Treasury yields point to greater USD downside risk, with EUR and CHF supported.

ANOTHER BAD WEEK FOR THE EUR



Source: Bloomberg, as of 23rd October 2026 14.40 BST (Weekly % Change vs. USD)

G4 FX: EUR weakens further ahead of next week's ECB policy meeting

EUR continues to underperform hitting fresh lows against GBP & JPY

The EUR has continued to underperform over the past week, falling to fresh year-to-date lows against both GBP and JPY. EUR/GBP has fallen below the 0.8400 level for the first time since May last year, while EUR/JPY has moved within touching distance of the 175.00 level for the first time in just over a year. The two main drivers behind the weaker EUR have been the worsening energy price shock and intensifying concerns over fiscal and political risks in France. Natural gas prices in Europe have climbed above EUR90/MWh this week, supported by media reports that the US and Israel are considering further military strikes on Iran following the US mid-term elections in early November. At the same time, escalating fighting involving the Houthi rebels and the Saudi and Yemeni governments has raised the risk of a broader regional crisis that could further disrupt energy supplies. These developments have increased the likelihood that energy prices remain elevated for longer. A larger and more prolonged energy price shock would add to downside risks for the euro area economy and the EUR, further undermining investor confidence in the region's growth outlook.

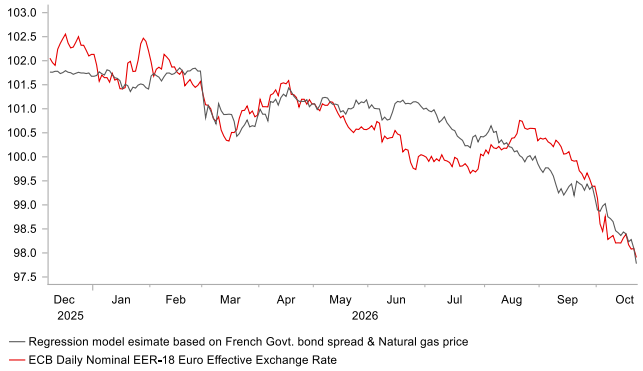
ECB facing higher energy prices & government bond yields adding to challenge in setting policy

Higher energy prices are also making the ECB's policy decisions more challenging. Oil and natural gas prices are currently trading between the ECB staff's adverse and severe economic scenarios, which are projected to push headline inflation above 4%, increasing pressure on the ECB to tighten policy. At the same time, the recent unwanted tightening in financial conditions, driven by a loss of confidence in French government bonds, is likely to make the ECB more cautious about the risk of overtightening policy. President Lagarde recently noted that higher government bond yields are tightening financial conditions and are likely to weigh more heavily on growth and inflation than the ECB anticipated at its September policy meeting.

EUR to weaken further if ECB indicates higher bond yields will curtail need for further hikes and/or may require market intervention

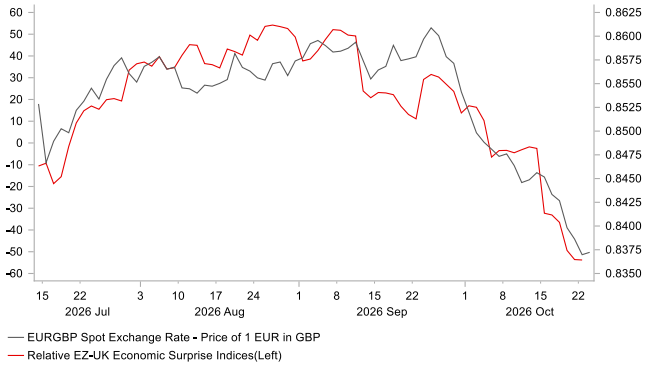
The risk of slower growth ahead was highlighted by the latest euro area PMI surveys for October. The euro area composite PMI fell for the first time since May, declining to 51.9, driven primarily by weakness in France, where the composite PMI dropped more sharply to 48.4. This raises fresh doubts about the resilience of the euro area economy. These developments prompted us to withdraw our call for another ECB rate hike at next week's policy meeting. Market participants will be listening closely to President Lagarde's press conference for clues on how the ECB may respond (click here) to the intensifying sell-off in the French government bond market. The EUR could weaken further if the ECB signals that higher bond yields are reducing the need for additional policy tightening and/or indicates that some form of market intervention may be required. Nevertheless, we still expect the ECB to deliver further modest policy tightening, including one additional rate hike before year-end in December.

HIGHER ENERGY PRICES & FISCAL RISK WEIGH ON EUR



Source: Bloomberg, Macrobond & MUFG

EUR/GBP VS. RELATIVE ECONOMIC SURPRISES



Source: Bloomberg, Macrobond & MUFG GMR

GBP has benefitted from concerns over fiscal risks shifting to France and stronger UK growth. Next week's Budget is expected to take a safety-first approach helping to dampen downside risks for the GBP.

Recent developments in France have helped divert some market attention away from the state of the UK's public finances ahead of next week's Budget. It will be the first Budget delivered under Prime Minister Andy Burnham, whose appointment initially generated some concern over a potential shift towards looser fiscal policy. However, the sharp rise in government borrowing costs has created a more challenging backdrop, even as UK growth has continued to surprise to the upside this year. Against this backdrop, the Prime Minister and Chancellor appear determined to make the Budget a low-key event (click here). We expect the Budget to include a package of targeted fiscal support measures alongside modest revenue-raising initiatives, rather than signalling a significant shift in policy direction. Higher borrowing costs are estimated to have reduced the government's fiscal headroom by around GBP11 billion, and media reports suggest that the government does not intend to replenish that headroom, which is expected to fall to around GBP14 billion. A decision to operate with reduced fiscal headroom is unlikely, on its own, to trigger a gilt market sell-off that would spill over into a weaker GBP, although it remains a downside risk. Barring a negative Budget surprise, we expect GBP to strengthen further in the near term, supported by the UK's stronger cyclical momentum. Stronger labour market and inflation data released this week have reinforced our view that the BoE will begin raising rates next month.

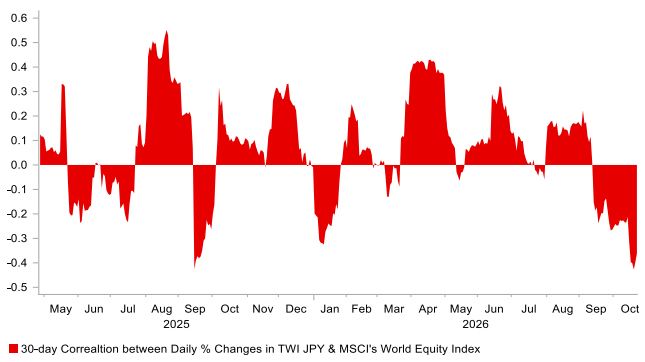
Negative correlation between JPY and global equities strengthens ahead of BoJ meeting

The JPY has also strengthened against the EUR over the past week, supported by a more risk-off trading environment. The modest correction in global equity markets and the decline in bond yields outside Japan, with France being a notable exception, have provided support for the JPY even as energy prices have continued to rise. The yen is also benefiting from the hawkish repricing of BoJ rate expectations. While the BoJ is widely expected to leave rates unchanged next week following last month's hike, it is likely to reiterate its commitment to a faster pace of policy normalisation in light of current inflation trends and the limited negative impact on Japan's economy. According to Bloomberg, BoJ officials view the underlying inflation trend as broadly consistent with their 2.0% target, while also judging that the policy rate remains some distance below neutral. A reaffirmation of the BoJ's tightening bias next week should provide support for the JPY, especially if global risk sentiment remains fragile.

Higher yields in Japan demand helping to boost domestic demand for JGBs, and ease JPY selling pressures

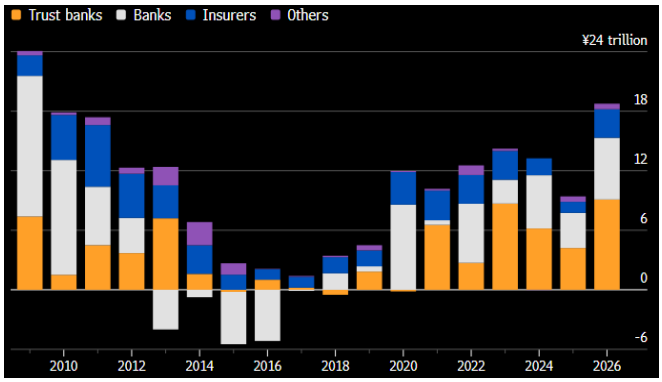
Bloomberg highlighted earlier this week growing evidence that higher interest rates in Japan are helping to boost domestic demand for JGBs. Japanese investors' purchases of domestic government bonds during the first half of the current fiscal year rose to their highest level since 2009. According to the Japan Securities Dealers Association, net purchases totalled JPY18.8 trillion in the six months to 30th September. Trust banks accounted for almost half of total purchases, while banks contributed roughly one-third. If domestic demand for Japanese assets continues to strengthen, it could help reduce downward pressure on the JPY even without a significant repatriation.

STRONGER CORRELATION BETWEEN JPY & EQUITIES



Source: Bloomberg, Macrobond & MUFG GMR

NET JGB PURCHASES IN 1H OF FISCAL YEARS



Source: Bloomberg

Weekly Calendar

Ccy	Date	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
EUR	26/10/2026	09:00	Germany IFO Business Climate	Oct	--	89.9	!!
EUR	27/10/2026	09:00	ECB Bank Lending Survey				!!
EUR	27/10/2026	09:00	M3 Money Supply YoY	Sep	--	3.5%	!!
USD	27/10/2026	12:30	Durable Goods Orders	Sep P	1.4%	-0.1%	!!
USD	27/10/2026	14:00	Conf. Board Consumer Confidence	Oct	80.3	81.9	!!
USD	27/10/2026	14:00	New Home Sales	Sep	652k	684k	!!
AUD	28/10/2026	00:30	CPI YoY	Sep	--	4.0%	!!!
NZD	28/10/2026	01:00	RBNZ Official Cash Rate		3.00%	2.75%	!!!
NOK	28/10/2026	07:00	Retail Sales W/Auto Fuel MoM	Sep	--	0.6%	!!
USD	28/10/2026	12:30	Advance Goods Trade Balance	Sep	-$125.0b	-$132.6b	!!
GBP	28/10/2026	12:30	UK Budget				!!!
CAD	28/10/2026	13:45	Bank of Canada Rate Decision		2.50%	2.25%	!!!
USD	28/10/2026	18:00	FOMC Rate Decision (Upper Bound)		4.00%	4.00%	!!!
SEK	29/10/2026	07:00	Retail Sales MoM	Sep	--	0.8%	!!
USD	29/10/2026	12:30	Initial Jobless Claims		--	--	!!
USD	29/10/2026	12:30	Core PCE Price Index MoM	Sep	0.3%	0.2%	!!!
USD	29/10/2026	12:30	GDP Annualized QoQ	3Q A	3.0%	2.2%	!!!
EUR	29/10/2026	13:15	ECB Deposit Facility Rate		2.50%	2.50%	!!!
EUR	29/10/2026	13:45	ECB Holds Press Conference				!!!
JPY	29/10/2026	23:30	Tokyo CPI YoY	Oct	2.7%	2.7%	!!
JPY	29/10/2026	23:50	Industrial Production MoM	Sep P	1.3%	-2.4%	!!
JPY	30/10/2026	Tbc	BOJ Target Rate		1.3%	1.3%	!!!
EUR	30/10/2026	06:30	France GDP QoQ	3Q P	--	0.0%	!!
EUR	30/10/2026	07:45	France CPI YoY	Oct P	--	3.1%	!!
CHF	30/10/2026	08:00	KOF Leading Indicator	Oct	--	109.1	!!
EUR	30/10/2026	08:55	Germany Unemployment Change (000's)	Oct	--	12.0k	!!
EUR	30/10/2026	10:00	GDP SA QoQ	3Q A	--	0.6%	!!!
CAD	30/10/2026	12:30	GDP MoM	Aug	--	0.0%	!!
USD	30/10/2026	12:30	Employment Cost Index	3Q	0.8%	0.9%	!!!
EUR	30/10/2026	13:00	Germany CPI YoY	Oct P	--	3.3%	!!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- The 3 major central banks of the BoJ, ECB and Fed are all expected leave rates on hold in the week ahead. We attach a higher risk of hawkish policy surprise from the Fed. Stronger US inflation data for September means that a back-to-back hike from the Fed can't be completely ruled out although Fed officials have indicated that they are not in a rush to hike again. Even if rates remain on hold we expect the Fed to indicate that more work is needed to bring inflation back towards target in a timely manner.

- The ECB's upcoming policy meeting will attract even more attention than normal in light of the ongoing sell-off in the French government bond market. The yield spread between 10-year French and German government bonds contuse to widen out sharply moving closer to the peak during the worst phase of the euro-zone debt crisis. We expect higher bond yields to encourage the ECB to leave rates on hold in the week ahead even though upside risks to inflation from higher energy prices have increased. Market participants will be listening closely to assess how the ECB is likely to react to increasingly challenging financial market conditions.

- The BoJ is expected to leave rates on hold after hiking last month. We expect the BoJ to reiterate that policy has entered a new phase consistent with a faster quarterly pace of rate hikes. We expect the next hike to be delivered in December. The Nikkei has also reported that the BoJ is likely to signal that inflation has effectively reached its 2% target. The BoJ is now more concerned by the risk of inflation overshooting their target.

- Market expectations have moved decisively in favour of the BoC hiking rates in the week ahead. We expect the BoC to take the opportunity to hike rates in response to building concerns over upside inflation risks.

- The UK government is expected to play it safe when they unveil their latest Budget prioritizing fiscal credibility.

Open Trade Ideas

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

Heightened fiscal & political risks in euro area to remain heavy weight on EUR/JPY

We are maintaining our short EUR/JPY trade recommendation. The EUR has fallen to fresh year-to-date lows over the past week, driven by rising energy prices and a further loss of confidence in French government debt. With no clear catalyst to improve investor sentiment towards French sovereign debt and no imminent resolution to the US-Iran conflict, which appears increasingly unlikely ahead of the US mid-term elections, we believe risks remain tilted to the downside for the EUR. The EUR could weaken further next week if the ECB signals that higher bond yields may reduce the need for additional rate hikes and/or increase the likelihood of market intervention. In contrast, the JPY is benefiting from the more risk-off trading environment in the near term. We also expect the BoJ to deliver a relatively hawkish policy update next week, signalling that its faster pace of policy normalisation will continue, helping to support further JPY strength.

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
Short USD/SEK	USD 5mn	18/09/2026	9.8500	9.9100	9.6000	10.300	26,668	6,301	32,969
Open Trades									
Short EUR/JPY	USD 5mn	02/10/2026	177.00	175.15	181.00	171.00	52,260	-2,883	49,377

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.

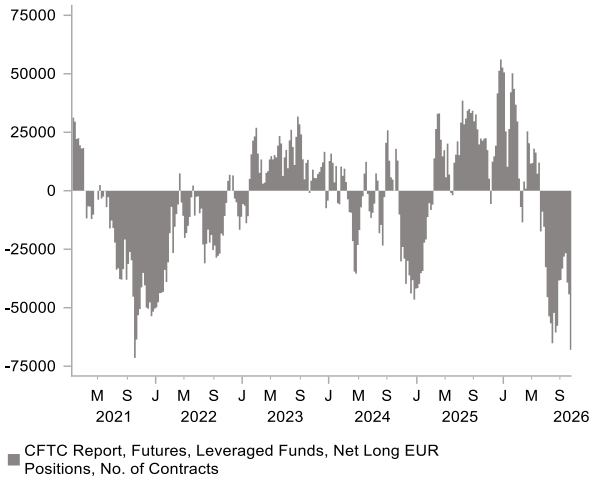
BREAKDOWN BY INVESTORS

Asset Manager/Institutional		
	No. of contracts	Z-Score
AUD	-115,920	-2.60
BRL	55,214	0.26
CAD	-30,804	0.57
CHF	-31,456	0.76
EUR	199,918	-1.13
GBP	-145,735	-1.74
JPY	65,819	0.63
MXN	-22,371	-2.34
NZD	-44,139	-0.80
USD	51,897	-0.39
ZAR	17,577	1.17

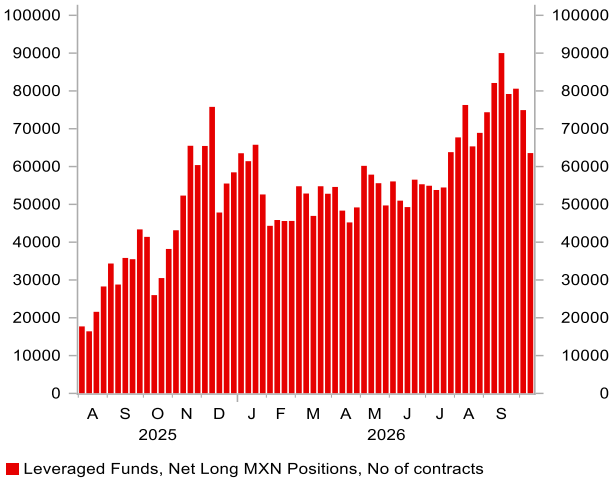
Leveraged Funds		
	No. of contracts	Z-Score
AUD	50,591	1.16
BRL	27,614	2.50
CAD	-88,112	-1.38
CHF	-14,941	-1.43
EUR	-68,001	-2.15
GBP	10,313	-1.67
JPY	-33,673	0.13
MXN	63,564	1.06
NZD	-11,619	-0.17
USD	59,716	-1.92
ZAR	4,548	0.36

Asset Manager/ Insitutional & Leveraged Funds		
	No. of contracts	Z-Score
AUD	-65,329	-0.82
BRL	82,828	0.94
CAD	-118,916	0.08
CHF	-46,397	1.84
EUR	131,917	-1.48
GBP	-135,422	-1.91
JPY	32,146	0.48
MXN	41,193	-0.55
NZD	-55,758	-0.75
USD	111,613	-0.88
ZAR	22,125	1.22

EUR SHORTS AT MULTI-YEAR HIGHS



SCALING BACK MXN LONGS



Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 13th October 2026)

Key Takeaways:

- The latest IMM positioning data for the week ending 12th October showed that leveraged funds sharply increased long USD positions to the highest levels since the middle of August. It was the fourth consecutive week that leveraged funds have increased long USD positions. The biggest long USD positions are held against the CAD, EUR and JPY. In contrast, leveraged funds continue to hold short USD positions against the AUD, BRL, and MXN where there is more yield pick-up.

- The largest weekly changes in leveraged fund positioning were: (i) an increase in short CAD positions of 8,487 contracts; (ii) an increase in short EUR positions of 23,740 contracts; (iii) an increase in short JPY positions of 8,630 contracts; (iv) a decrease in long CAD positions of 11,363 contracts; and v) an increase in short NZD positions of 10,832 contracts. It was the largest short EUR position since October 2021.

- Our positioning z-score analysis indicates that long BRL and short EUR positions were the most stretched relative to their respective two-year ranges.

What happens to the dollar after US tech credit cracks?

Concerns around the scale, financing and prospective returns of AI investment have increasingly become visible in credit markets. For FX, the question is whether this remains conventional risk aversion, which can support USD through safe-haven demand, or begins to resemble a repricing of US assets themselves. This week, we examine how the FX performs when US tech credit comes under pressure and how performance differs by rates regime and contagion across credit.

METHODOLOGY

We define an **IG Technology Widening Regime** when the 20-trading-day change in US investment-grade technology option-adjusted spreads (OAS) exceeds the **85th percentile** of its historical distribution since January 2022. The spread change is calculated as:

$$\Delta OAS_{t,20} = OAS_t - OAS_{t-20}$$

We then calculate its historical percentile rank:

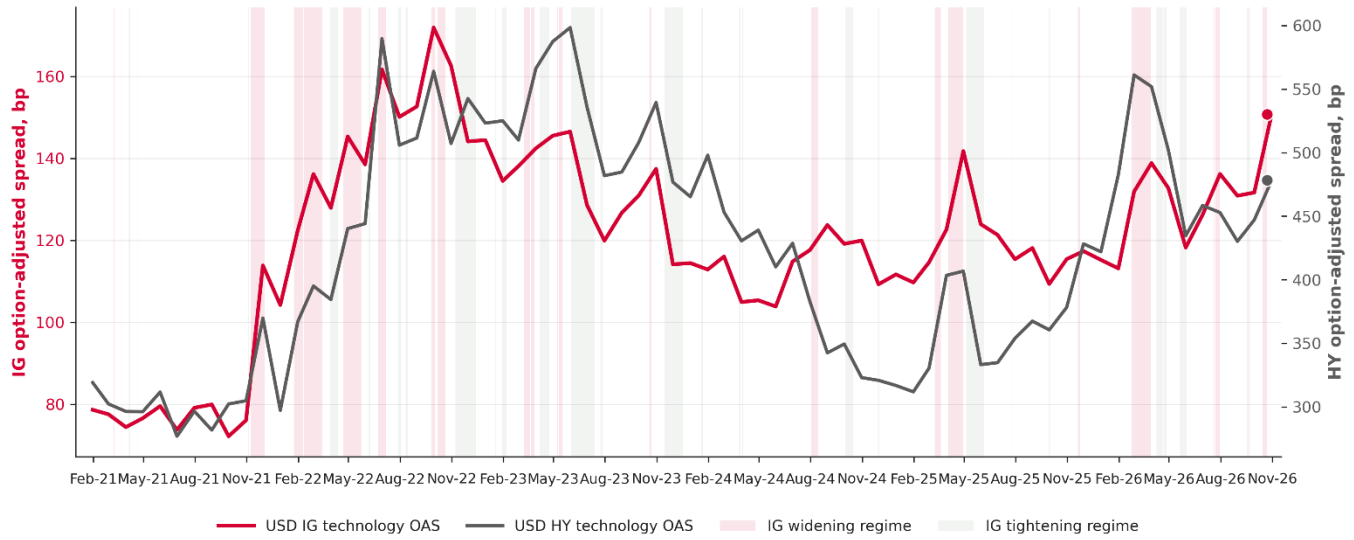
$$P_t = F_{\Delta OAS}(\Delta OAS_{t,20})$$

where $F_{\Delta OAS}$is the empirical distribution of 20-day OAS changes since January 2022. A widening regime is therefore identified when:

$$P_t \geq 85\%$$

Currently, US IG technology OAS stands at **147.9bp**, having widened **17.0bp** over the past 20 trading days. This places the move in the **93rd percentile** of the post-2022 distribution, while the outright spread level is in the **87th percentile**. Over the same period, HY technology OAS has widened **52.2bp**, indicating that the current episode represents **broad-based IG and HY technology-credit stress**, rather than an isolated move within a single credit segment.

IG OAS VS. HY OAS (2025 – PRESENT)

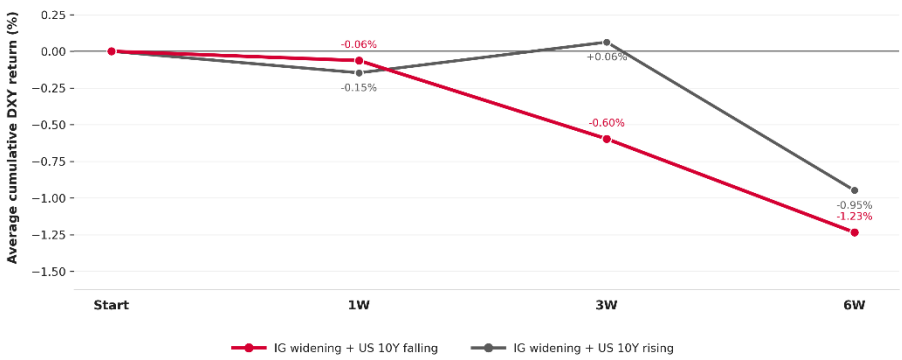


Source: Bloomberg and MUFG GMR

RATES REGIME AS A FILTER

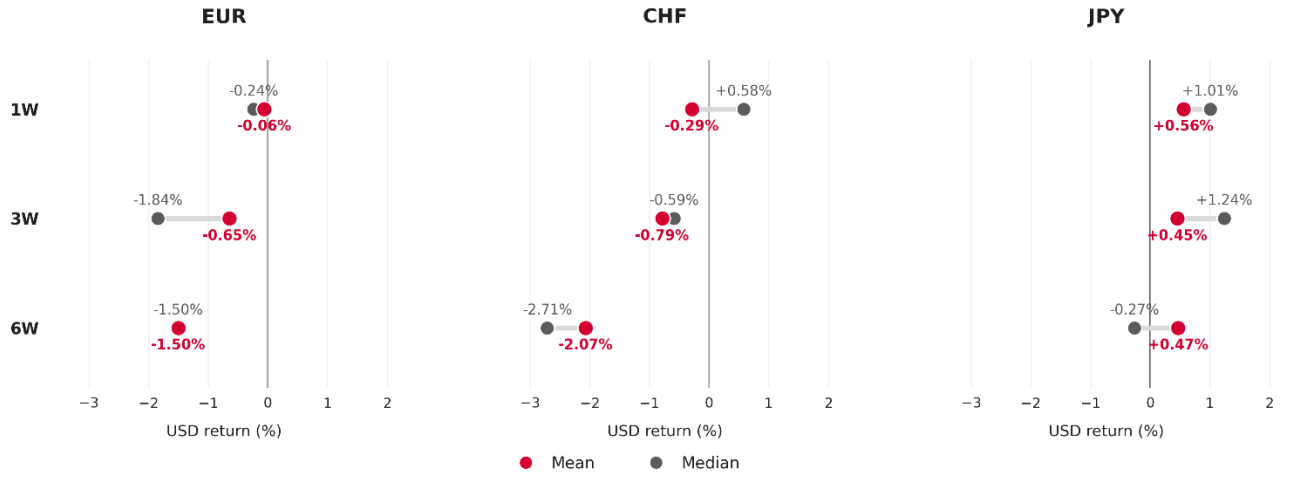
In a conventional global risk-off episode, wider credit spreads can coincide with stronger demand for safe-haven USD assets. But if widening credit spreads reflect a deterioration in the perceived relative attractiveness of US assets, the USD response can be different. Since January 2022, our framework identified 21 distinct IG technology-credit widening regime starts, our analysis find that alone credit widening is not an FX signal, however introducing a rates regime environment separates the outcomes. Of our 21 episodes, 7 completed episodes began while the US 10-year Treasury yield was falling over the preceding 20 trading days. Following these episodes, average DXY performance became progressively weaker as the horizon increased. This suggests that the combination of unusually rapid deterioration in high-quality US technology credit and falling Treasury yields has historically been more informative for subsequent FX performance than credit widening considered in isolation.

Uniform depreciation for USD following application of rates regime filter



Source: Bloomberg and MUFG GMR

FX RESPONSE IS NOT UNIFORM



Source: Bloomberg and MUFG GMR

Following IG technology-credit widening regimes accompanied by falling Treasury yields, USD weakness has historically been concentrated against CHF and EUR. Over the subsequent six weeks, USD declined by an average 2.07% against CHF and 1.50% against EUR, while DXY fell 1.23%. EUR provided the most consistent signal, with USD weakening in six of the seven completed episodes and both the mean and median six-week return at -1.50%. CHF recorded the largest adjustment, with a median USD decline of 2.71%. By contrast, the JPY signal was less consistent: the average USD return was +0.47%, despite a marginally negative median. The historical distribution therefore points to EUR and CHF as the cleaner FX expressions of this credit-and-rates regime.

FX Implications

- The key finding from our analysis is that widening US technology credit alone is not a consistent signal for USD weakness. The FX implications become clearer when unusually rapid deterioration in IG technology credit is accompanied by falling Treasury yields. In the seven completed episodes matching this regime since 2022, DXY fell by an average 1.23% over the subsequent six weeks, while USD declined 1.50% against EUR and 2.07% against CHF. EUR provided the strongest directional consistency, with USD weakening in six of the seven episodes.

- The current market fits this configuration. US IG technology OAS has widened 17bp over the past 20 trading days, placing the move in the 93rd percentile of our sample and comfortably above the threshold used to define an extreme widening regime. With US Treasury yields also significantly lower over the same period, the historical distribution points towards greater downside risk for USD over the coming weeks, particularly against EUR and CHF.

London:

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

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

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

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

Hong Kong:

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

MR KHANG SEK LEE
Associate
T: +852 2862 7838

New York:

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

Dubai:

MR EDWARD BELL
Head of Research – MENA
T: +971 (0)4 387 5033

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

Tokyo

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

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

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

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

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

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

Singapore:

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

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

Disclaimer

CERTIFICATION

The author(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple authors are responsible, individually certify with respect to each security that the author covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

This report has been prepared by the Global Markets Research, US Rates and Credit Strategy desks within MUFG Bank, Ltd. ("MUBK"), MUFG Securities EMEA plc ("MUSE") and MUFG Securities Americas Inc ("MUSA") and may be distributed to you either by MUBK, MUSE or MUSA or by another subsidiary of the Mitsubishi UFJ Financial Group ("MUFG").

LEGAL ENTITIES AND BRANCHES

The securities related businesses within MUFG (together referred to in this material as "MUFG Securities") are:

(1) MUFG Securities EMEA plc ("MUSE"), a limited liability company, registered in England (No:1698498) with its registered office at Ropemaker Place, 25 Ropemaker Street, London, EC2Y 9AJ. MUSE is authorised in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (FS Registration Number 124512). In the USA, MUSE is a registered Swap Dealer ("SD") with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA"). MUSE is also a registered Security-Based Swap Dealer ("SBSD") with the Securities Exchange Commission ("SEC"). MUSE has a branch office ("MUSE Dubai Branch") that is registered at Level 3, East Wing, The Gate, Dubai International Financial Centre, PO Box 506894, Dubai, UAE. MUSE Dubai Branch is authorised to operate in the Dubai International Financial Centre ("DIFC") as a Non-DIFC Entity (Commercial License Number CL1656) and is regulated by the Dubai Financial Services Authority (Reference Number F002623);

(2) MUFG Securities (Europe) N.V. ("MUS(EU)), a public limited company, registered in the Netherlands (chamber of commerce number 71213376) with its registered office at World Trade Center, Tower Two, level 5, Strawinskylaan 1887, 1077 XX Amsterdam. MUS(EU) is authorized by the European Central Bank and regulated by De Nederlandsche Bank ("DNB") and also regulated by the Authoriteit Financiële Markten ("AFM"). MUS(EU) has a branch office (MUSE(EU) Paris Branch) registered in France (chamber of commerce number 844285999) with its registered office at 18 rue du Quatre-Septembre, 75002 Paris. MUS(EU) Paris Branch is regulated in France by the Autorité de contrôle prudentiel et de résolution ("ACPR") and the Autorité des marchés financiers ("AMF");

(3) MUFG Securities Americas Inc. ("MUSA") which is registered in the United States with the Securities and Exchange Commission ("SEC") and regulated by the Financial Industry Regulatory Authority ("FINRA") (SEC# 8-43026; CRD# 19685);

(4) MUFG Securities (Canada), Ltd. ("MUS(CAN)") is an investment dealer registered in Canada with the Ontario Securities Commission ("OSC") and in each province and territory of Canada, a member of the Canadian Investment Regulatory Organization ("CIRO") (NRD# 54270), and a member of the Canadian Investor Protection Fund ("CIPF"). Customers' accounts are protected by CIPF within the specified limits;

(5) MUFG Securities Asia Limited ("MUS(ASIA)") which is incorporated in Hong Kong, licensed under the Hong Kong Securities and Futures Ordinance and regulated by the Hong Kong Securities and Futures Commission (Central Entity Number AAA889). MUS(ASIA) is registered as a foreign company under the Corporations Act 2001 of Australia (ARBN 169 329 453); and

(6) MUFG Securities Asia Limited, Singapore Branch ("MUS(ASIA Singapore)") has a capital markets services licence under the Securities and Futures Act in Singapore.

(7) MUFG Securities (India) Private Limited ("MUS(INDIA)") is a registered intermediary under the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 having registration number INM000013305.

In respect of the financial services provided to wholesale clients in Australia, MUS(ASIA), MUSE and MUSA are each exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 of Australia under the Australian Securities and Investments Commission Class Order Exemption CO 03/1099, CO 03/1103, CO 03/1100, and CO 03/1102, respectively. Each of MUS(ASIA), MUSE, MUSA, are regulated under the laws of Hong Kong, the United Kingdom and the United States respectively, which differ from Australian laws.

The banking related businesses within MUFG (together referred to in this material as "MUFG Bank") are:

(1) MUFG Bank Ltd ("MUBK"), is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUBK's head office is at 1-4-5 Marunouchi, Chiyoda-Ku, Tokyo, Japan. MUBK is authorised and regulated by the Japanese Financial Services Agency. MUBK is registered as a foreign company under the Corporations Act 2001 of Australia (ARBN 103 418 882) and is authorised by the Australian Prudential Regulation Authority to carry on banking business in Australia under the Banking Act 1959 of Australia. MUBK is also a registered Swap Dealer with the Commodity Futures Trading Commission and a member of the National Futures Association.

(2) MUBK's London branch is at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, and is registered as a UK establishment in the UK register of companies (registered no. BR002013). MUBK's London branch is authorised by the UK Prudential Regulation Authority ("PRA") and subject to regulation by the UK Financial Conduct Authority ("FCA") and limited regulation by the PRA.

(3) MUFG Bank (Europe) N.V. ("MUFG N.V.") is a company with limited liability (naamloze vennootschap) incorporated under the laws of the Netherlands and registered with the Dutch Chamber of Commerce under number 33132501, with its head office at Strawinskylaan 1887, 1077XX Amsterdam, the Netherlands. MUFG N.V. is authorized and regulated by the Dutch Central Bank (De Nederlandsche Bank) (www.dnb.nl) and the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten) (www.afm.nl) (jointly the "Dutch Authorised Regulators"). MUFG Bank (Europe) N.V. Germany Branch ("MUFG Germany") is the German Branch of MUFG N.V. with its registered office at Breite Strasse 34, 40213 Düsseldorf, Germany, registered with the commercial register (Handelsregister) of the local court (Amtsgericht) of Düsseldorf under no. HRB 82502, and is authorised to provide banking services in Germany under the freedom of establishment in the European Union. Part of its activities are - in addition to the Dutch Authorised Regulators – supervised by the Federal Financial Supervisory Authority for Germany, "BaFin" (Bundesanstalt für Finanzdienstleistungsaufsicht) (www.bafin.de) and Deutsche Bundesbank (www.bundesbank.de).

(4) MUFG Bank's DIFC branch, is regulated by the Dubai Financial Services Authority (DFSA) (License number: F000470) and has its registered address at Level 3, East Wing, the Gate, Dubai International Financial Centre, Dubai, P.O. Box 506614, United Arab Emirates.

(5) MUFG Bank's QFC branch is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA) (Licence number: 00103) and has its registered address at Suite A3, Mezzanine Floor, Tornado Tower, West Bay, Doha, Qatar.

(6) MUFG Bank's Riyadh branch is regulated by the Saudi Central Bank and has its registered address at 13th Floor, East Wing Al Nakhlah Tower, King Fahd Road, As Sahafah Dist, Riyadh 13315, Kingdom of Saudi Arabia.

(7) MUBK's Canada branch (MUFG Bank, Ltd., Canada Branch ("MUBK Canada Branch") principal office is located at 200 Bay Street, Suite 1800, Toronto, Ontario, M5J 2J1, Canada. MUFG Bank's Canada branch is an authorized foreign bank branch permitted to carry on business in Canada pursuant to the Bank Act (Canada); Deposits with MUFG Bank Canada are not insured by the Canada Deposit Insurance Corporation.

(8) MUBK's Hong Kong branch is a licensed bank by the Hong Kong Monetary Authority and registered with the Securities and Futures Commission of Hong Kong to carry out Type 1 and Type 4 regulated activities in Hong Kong.

(9) MUBK's Singapore branch is licensed as a bank by the Monetary Authority of Singapore under the Banking Act of Singapore, an exempted capital markets service entity and an exempt financial adviser under the Securities and Futures Act and Financial Advisers Act of Singapore respectively.

(10) MUBK's Auckland Branch is authorised by the Reserve Bank of New Zealand to carry on banking business in New Zealand under the Banking (Prudential Supervision) Act 1989 of New Zealand.

GENERAL DISCLAIMERS

This report is for information purposes only and should not be construed as investment research (as defined under regulatory rules of the United Kingdom and the European Economic Area) or a solicitation of any offer to buy or sell any security, commodity, futures contract or related derivative (hereafter "instrument") or to participate in any trading strategy. This report does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients. Recipients should therefore seek their own financial, legal, tax or other advice before deciding to invest in any of the instruments mentioned in this report.

Certain information contained in this report has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. MUBK and MUFG Securities do not make any guarantee, representation, warranty or undertaking, express or implied, as to the fairness, accuracy, reliability, completeness, adequacy or appropriateness of any information or comments contained in this report. Furthermore, the information may not be current due to, among other things, changes in the financial markets or economic environment. MUBK and MUFG Securities has no obligation to update any such information contained in this report.

The information contained in this report may contain forward-looking information ("FLI"). FLI is information regarding possible events, conditions, or results of operations that is based on assumptions about future economic conditions and courses of action and may be presented as either a forecast or a projection. This report is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Upon receipt of this report, each recipient acknowledges and agrees that any FLI included herein should not be relied upon as a material consideration for any investment decisions taken by the recipient. Recipients should consult their own legal and financial advisers for additional information. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size.

This report is proprietary to MUBK and MUFG Securities and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUBK and MUFG Securities shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this material.

MUBK covers banking business and is responsible for the publication of related research reports. MUFG Securities covers the securities business and is responsible for the publication of securities related research reports. References to "MUBK" shall be interpreted as a reference only for all matters related to bank products and references to "MUFG Securities" shall be interpreted as a reference only for all matters related to securities products.

MUBK and/or its directors, officers and employees, from time to time, may have interest and/or underwriting commitment in the relevant securities mentioned herein or related instruments and/or may have a position or holding in such securities or related instruments as a result of engaging in such transactions. Furthermore, MUBK may have, or have had a relationship with or may provide or have provided corporate finance or other services to any company mentioned herein.

COUNTRY AND REGION SPECIFIC DISCLAIMERS

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. Each entity and branch within MUFG is subject to distinct regulatory requirements and certain products and services discussed in this document may not be available in all jurisdictions or to all client types. In this regard, please note the following jurisdictional specific disclaimers.

Europe Middle East and Africa (EMEA):

- United Kingdom (UK) and the European Economic Area (EEA): This report is only intended for a professional client or eligible counterparty and must not be passed onto a retail client, as defined under UK and EEA regulatory rules. It does not constitute investment research as those producing this report are not a research function and therefore this material has not been prepared under conditions designed to promote the independence of investment research including, but not limited to, the prohibition on dealing ahead of the dissemination of investment research. Under the Market Abuse Regulation ("MAR") this report is a marketing communication which may amount to, or include, an investment recommendation and where so there are no plans to update the investment recommendation. Any prices mentioned in the investment recommendation were prices known by us when the recommendation was prepared. Further UK and EEA disclaimers, disclosures policies and notices can be found at https://www.mufgemea.com/governance/legal-and-regulatory/, including the Fixed Income and Currency Products Dealing Disclosures, the Conflicts of Interest Summary Policy and MAR investment recommendation disclosures .

- United Arab Emirates (UAE): This report is only intended for distribution to a professional client or market counterparty as those terms are defined under the rules of the Dubai Financial Services Authority and only a person meeting the criteria for these terms should act upon this report.

- Qatar: This report is only intended for distribution to a Business Customer or Eligible counterparty as those terms are defined under the rules of the Qatar Financial Centre Regulatory Authority and only a person meeting the criteria for these terms should act upon this report.

- South Africa: MUSE is permitted to offer and provide financial services to certain categories of sophisticated clients in South Africa under an exemption issued by the South African Financial Sector Conduct Authority, in terms of the Financial Advisory and Intermediary Services Act, 2002.

The Americas (AMER):

• United States of America: This report, when distributed by MUSA, is intended for Institutional Investors (“Institutional Accounts” as defined by FINRA Rule 4512(c)). When distributed by a non-US affiliate of MUSA, this report is intended for distribution solely to “major U.S. institutional investors” or “U.S. institutional investors” pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. Securities referenced in this report may have been underwritten by MUSA and/or its affiliates. Nothing in this report should be considered an offer or solicitation of an offer to buy or sell securities or any other financial product or a commitment of any kind with respect to any transaction.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUSA of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

In relation to activities undertaken by MUSE in their capacity of a SD or SBSD, further disclosures and notices can be found at https://www.mufgemea.com/governance/legal-and-regulatory/.

• Canada: MUSE operates under an International Dealer Exemption and Foreign Derivatives Dealer Exemption from registration within the provinces of Alberta, British Columbia, Manitoba, Ontario and Québec. MUSA operates under an International Dealer Exemption from registration with the securities regulators in all Canadian Provinces and Territories. When distributed by MUSE or MUSA, this report is only intended for a “permitted client” as that term is defined under the National Instrument 31-103 in Canada and is not intended for re-distribution to any other person. When distributed by MUS(CAN), this report is only intended for an “institutional client” as that term in defined under the CIRO dealer member rules and is not intended for re-distribution to any other person. The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Under no circumstance is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient.

Asia-Pacific (APAC):

• Hong Kong: Reports produced by MUFG Securities are only intended for distribution to a “professional investor” as that term is defined in the Securities and Futures Ordinance and should not be passed onto any other person. All enquiries from recipients of this report in Hong Kong must be directed to your usual sales contact in Hong Kong.

• Singapore: This report is only intended for distribution to an "institutional investor", "accredited investor" or "expert investor" as those terms are defined under regulation 2 of the Financial Advisers Regulation. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. Investors should note that, as a result of exemptions that apply when this report is distributed to "accredited investors" and "expert investors", MUBK’s Singapore branch and MUS(ASIA) Singapore is exempt from complying with certain requirements under the Financial Advisers Act, including section 34 of the Financial Advisers Act (which requires a financial adviser to disclose all material information on certain investment products), section 36 (which requires a financial adviser to have a reasonable basis for making recommendations on investments) and section 45 (which requires a financial adviser to disclose any interests that it holds in securities that it recommends). Please contact your respective financial advisor in Singapore in relation to any matters arising from this report.

• India: (i) MUS(INDIA) does not provide any advice/ recommendation to the prospective investors; (ii) the issuer is solely responsible for the completeness and accuracy of all information in the memorandum or otherwise provided to investors in connection with the debentures issued; (iii) MUS(INDIA) does not make any representations or warranties on the creditworthiness of the issuer of the securities, the information provided in the memorandum, or on the adequacy/ sufficiency and legal validity of the legal documentation or structure; (iv) investors must obtain independent advice in connection with the investment; and (v) MUS(INDIA) does not owe any duty of care to investors and expressly disclaims all liability.

• Japan: This Note, when distributed by MUFG Securities affiliates located outside of Japan, is intended for distribution in accordance with Article 58-2 of the Financial Instruments Exchange Act 1948 (“FIEA”) i) to a “Financial Instruments Business Operator” engaged in “Securities-Related Business” as defined in the FIEA or ii) to the government, the Bank of Japan, a qualified financial institution defined in Article 209 of the Cabinet Office Ordinance Concerning Financial Instruments Business, Etc., or an Investment Manager.

When distributed by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”), this Note is intended for distribution to a “Professional Investor (tokutei-toushika)” as defined in the FIEA.

• Australia: This Note is only intended for distribution to persons in Australia who are sophisticated or professional investors for the purposes of section 708 of the Corporations Act 2001, and are wholesale clients for the purposes of section 761G of the Corporations Act 2001. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia. This Note is for informational purposes only, it does not make any recommendations and should not be relied upon for any investment purposes. For information on how we collect, use, store and secure personal information, please review our Privacy Policy. MUBK and MUFG Securities have established policies and procedures to identify and manage conflicts of interest to uphold the values of integrity, responsibility, accountability and trust, and to treat clients fairly. MUBK and MUFG Securities have put in place the following arrangements to prevent conflicts of interest: information barriers to prevent the unnecessary exchange or misuse of confidential information; segregated deal teams to manage competing interests in a transaction; defined procedures for dealing with conflicts of interest, including procedures on crossing information barriers; reasonable steps by Compliance to ensure that information barrier arrangements remain effective and are effectively monitored.

• New Zealand: This Note is only intended for distribution to persons in New Zealand who are wholesale clients as defined in clause 4 of Schedule 5 of the Financial Markets Conduct Act 2013, or are wholesale investors as defined in clauses 3(2) and 3, and clauses 36(b) of Schedule 1 of the Financial Markets Conduct Act 2013. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in New Zealand. For information on how we collect, use, store and secure personal information, please review our Privacy Policy.

• Thailand: In Thailand, MUSE has a derivatives dealer registration with the Securities and Exchange Commission, Thailand