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MUFG Bank
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USD/JPY: Fed, ECB, and BOJ meetings amid market turmoil

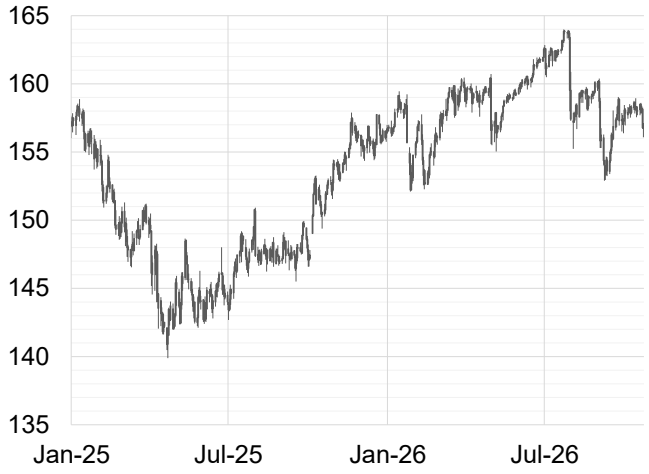
26 October 2026

(Original Japanese report issued on 23 October 2026 at 17 pm Tokyo time.)

Week in review

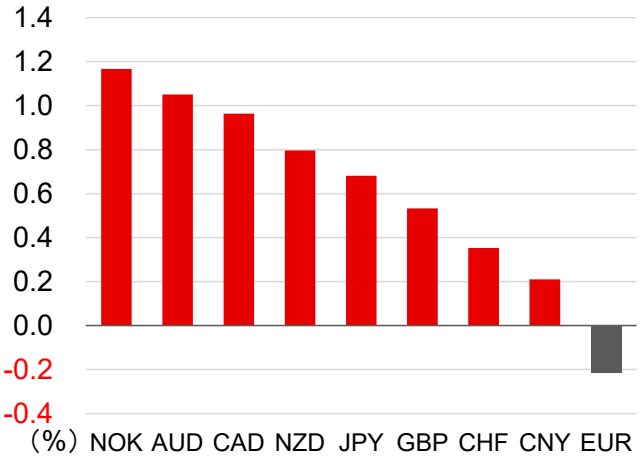
The USD/JPY opened the week at 157.79. The pair edged steadily higher from the start of the week as crude oil prices and US rates rose amid escalating tensions in the Middle East, reaching a high of 158.68 on 20 October. However, the USD/JPY struggled to extend its gains as political instability in France and declines in AI-related stocks added to risk-off sentiment across financial markets. Yen buying prevailed from Tokyo trading on 22 October, pushing the pair lower. The USD/JPY broke below 157, which had also marked this month's low, and extended its decline to below 156.50 early on 23 October. The pair subsequently rebounded, with markets also taking note of comments from Minister of State for Economic and Fiscal Policy Minoru Kiuchi that were seen as signaling caution on monetary policy. As of writing, the USD/JPY was trading around 157 (Figure 1). Among G10 currencies this week, the euro weakened broadly as political concerns in France spread to other countries in the region (Figure 2).

FIGURE 1: USD/JPY



Note: As at 12:00 JST on 23 October.
Source: EBS, Refinitiv, MUFG

FIGURE 2: MAJOR CURRENCIES' RATE OF CHANGE VS USD THIS WEEK



Note: As at 12:00 JST on 23 October.
Source: Bloomberg, MUFG

USD/JPY breaks below its 158-centered range

The USD/JPY remained in a narrow range around 158 early this week. However, new sources of market concern emerged, including fiscal worries in France and declines in AI-related stocks, and sentiment shifted in the second half of the week. Risk aversion spread across financial markets, with equities selling off and bonds rallying, accompanied by dollar selling and yen short-covering.

Against this backdrop, the Fed, ECB and BOJ are all scheduled to hold monetary policy meetings next week. All three raised rates at their previous meetings in September and are expected to leave rates unchanged this time. However, inflation remains a concern for all three central banks, so they are likely to maintain a hawkish policy stance and could signal another rate hike in December. If their policy messages remain broadly aligned, the central bank meetings themselves may not generate a significant move in FX markets.

All three central banks expected to hold, but FOMC outlook less certain

There is some speculation that the FOMC could deliver a surprise rate hike on 27-28 October, partly because Chair Kevin Warsh has generally avoided signaling policy decisions in advance. September US CPI released last week certainly provided grounds for caution on inflation, with core inflation accelerating to 2.6% YoY. The Beige Book also upgraded its assessment of price pressures but downgraded its assessment of economic activity. Senior Fed officials including Governor Christopher Waller have also consistently expressed caution about back-to-back rate hikes, and there has been little momentum behind another increase ahead of the 3 November midterm elections. The Fed is also likely to tread carefully given emerging signs of instability in financial markets, as another rate hike could exacerbate those moves. Nevertheless, a hawkish overall tone would not be surprising, potentially including dissenting votes in favor of a rate hike or comments from Chair Warsh at the post-meeting press conference pointing to the need for further hikes. We should therefore keep in mind the possibility that the dollar returns to a strengthening trend after the FOMC meeting.

BOJ faces test of its hawkish stance

Looking ahead to the BOJ Monetary Policy Meeting on 29-30 October, Nikkei reported that a senior official said the BOJ would only consider back-to-back rate hikes in the event of a serious emergency. That could conceivably include a sharp rise in the USD/JPY following an unexpected FOMC rate hike, but such a scenario appears unlikely. However, the updated Outlook Report is likely to effectively declare that underlying inflation has reached the BOJ's 2% price stability target. The normalization of monetary policy pursued since Governor Kazuo Ueda took office could therefore be entering a new phase. At his press conference following last week's G20 meeting, Governor Ueda went somewhat further, saying underlying inflation was now broadly close to 2% and that the BOJ could not tolerate a further rise. This reinforced his comments after the September meeting that the policy phase had changed and again underscored the BOJ's increased focus on containing inflation. The tone of Governor Ueda's post-meeting press conference is therefore also likely to be relatively hawkish. One risk would be if the two Board members who opposed the September rate hike were to dissent against a hold this time and instead call for a rate cut. US Treasury Under Secretary for International Affairs Erin Browne was also reported last weekend as saying that Japan was no longer in a deflationary environment and that its monetary policy should adjust accordingly. If the BOJ's reflationist members were nevertheless to call for a rate cut, it would reinforce the Bank's dovish image and likely prompt yen selling.

US authorities remain vigilant on yen weakness

Even if the BOJ meeting triggers yen selling, many market participants would be taking on fresh risk by joining the move. The prevailing risk-off mood in financial markets is likely to deter them from doing so. Comments from Treasury Under Secretary Browne also confirmed that US authorities remain concerned about yen weakness. Renewed yen selling would likely prompt further warnings from the Japanese authorities as well. Fresh yen shorts offer little reward for the exposure involved. The USD/JPY may therefore struggle to break above its recent highs above 158.50. Instead, we would be more alert to a further deterioration in market sentiment that could accelerate yen buying.

Forecast range

USD/JPY: 154.50 ～ 158.50

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