

FX Alpha

Buy 3m EUR/JPY put spread

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We buy 3m EUR/JPY put spread for 0.6663% EUR (strikes 158.00 & 155.00, spot ref: 160.41, vol refs: 8.709 & 8.965, expiry Apr 25 2024). We use the year-to-date JPY selloff as entry and target a move down to our Q1 '24 EUR/JPY forecast of 155. Risks to this trade are markets pricing a more dovish BoJ stance or a more hawkish ECB stance.

Yen to be driven by BoJ's policy normalization

While we remain structurally bearish on JPY, we expect JPY to rise in the next three months on the BoJ's policy normalization, which our economists expect at the April MPM. The BoJ's March MPM was hawkish and hinted that the BoJ was getting closer to a NIRP exit. While we do not expect the BoJ to tighten policy significantly in coming months, the BoJ may implement several measures of policy normalization, including the NIRP exit and changes to YCC, balance sheet policy, and risk asset purchases. Policy convergence between the BoJ and DM central banks would likely to be a theme supporting JPY in the near-term.

EUR – risks of more cuts in 2H, weak European data

Our ECB call for 2024 is quarterly cuts starting in June (followed by one cut per meeting in 2025 until the depo is at 2% and more cuts in 2026). While our economists do see risks skewed toward more cuts in 2H (see: [A slow pivot all around 26 Jan 24](#)), the market is already pricing almost six cuts. Then why do we buy JPY vs EUR? First, markets had previously priced more ECB cuts for this year, so it is conceivable this becomes again the case if the Fed cuts in March (as we expect), if the ECB does not close the door to an April cut, or if the European data remains weak—our economists remain slightly more bearish than consensus on Europe. After all, we may be bullish on EURUSD this year not because we are bullish on EUR, but because we are bearish on USD. Additional reasons we favour buying JPY vs EUR are: (1) Carry is not as unfavourable as in other cases; (2) Positioning is lighter; (3) To position for geopolitical risks, to which Europe is exposed.

Technical: Corrective pattern implies turn down is due

In Chart 1, the end of an impulsive move higher in euro/yen occurred in November 2023 at trend line resistance with a MACD divergence (noted by labels (v) and 3). A three-wave corrective pattern typically follows with wave a down and b up complete. Wave c down may have just begun this week after market reaction to the ECB weakened EURJPY. Such a wave could lead spot to retrace 61.8% of “a”, which is 156.50. A longer wave would result in a test of the Ichimoku cloud that is rising to 155 in the next 3 months. One risk is if the MACD and Signal line converge and cross. - Ciana

For a list of our open and closed trades, please see the [Global FX Weekly](#).

26 January 2024

Currency Strategy
Global

G10 FX Strategy
MLI (UK)

Michalis Rousakis
FX Strategist
MLI (UK)
michalis.rousakis@bofa.com

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan
shusuke.yamada@bofa.com

Paul Ciana, CMT
Technical Strategist
BofAS
paul.ciana@bofa.com

Howard Du, CFA
G10 FX Strategist
BofAS
yuhao.du@bofa.com

Kamal Sharma
FX Strategist
MLI (UK)
ksharma32@bofa.com

Athanasios Vamvakidis
FX Strategist
MLI (UK)
athanasios.vamvakidis@bofa.com

Vadim Iaralov
FX Strategist
BofAS
vadim.iaralov@bofa.com

See Team Page for List of Analysts

NIRP: negative interest rate policy

BoJ: Bank of Japan

ECB: European Central Bank

MPM: Monetary Policy Meeting

YCC: Yield curve control

MACD: Moving average
convergence/divergence

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EURJPY: Corrective pattern implies at turn lower is due**Chart 1: EURJPY – Weekly chart**

Corrective wave c typically retraces majority of b (156.50). Potentially spot may retest the cloud lines near 155.



Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

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Research Analysts

G10 FX Strategy
MLI (UK)

Paul Ciana, CMT
Technical Strategist
BofAS
paul.ciana@bofa.com

Athanasios Vamvakidis
FX Strategist
MLI (UK)
athanasios.vamvakidis@bofa.com

Kamal Sharma
FX Strategist
MLI (UK)
ksharma32@bofa.com

Vadim Iaralov
FX Strategist
BofAS
vadim.iaralov@bofa.com

Michalis Rousakis
FX Strategist
MLI (UK)
michalis.rousakis@bofa.com

Howard Du, CFA
G10 FX Strategist
BofAS
yuhao.du@bofa.com

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