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USD to consolidate at weaker levels

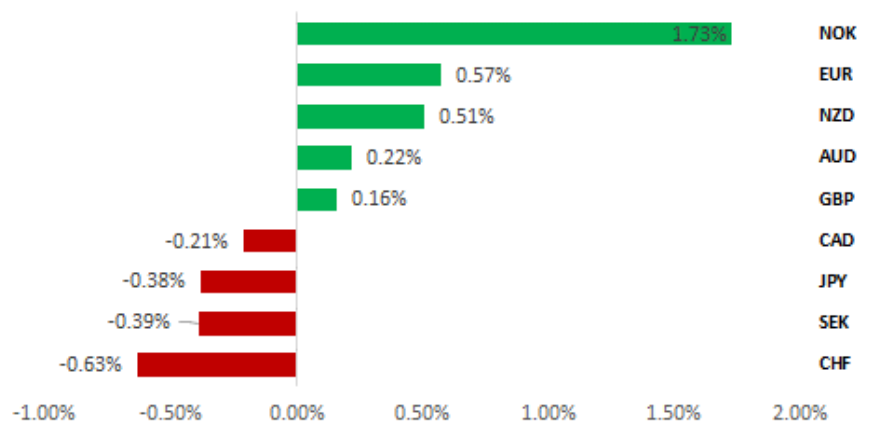
FX View: The US dollar is finishing the week at weaker levels helped by increased optimism in Europe after a deal was reached in Germany over fiscal spending plans which should mean a successful vote in the Bundestag on Tuesday. That along with a press conference in China on Monday, which is focused on policy support measures to boost consumption should help support global growth optimism and keep the dollar on a weaker footing. However, we have a busy week of central bank meetings next week with the BoJ, FOMC, Riksbank, SNB and BoE all meeting on Wednesday and Thursday. All are expected to remain on hold bar the SNB that should follow the ECB and cut by 25bps. Confirmation of a successful passing of legislation on German fiscal spending is unlikely to have much impact with a positive outcome priced and hence Trump trade policies and dovish/hawkish interpretations from central bank communications will drive the FX markets. But possible China announcements and German developments may help consolidate the dollar at these weaker levels for now.

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

JPY Flows: The monthly MoF International Transactions in Securities was released last week and revealed a rebound in foreign bond buying with Japan Trusts the biggest buyers. After record buying of foreign equities by Japan Investment Trusts in January, further more modest buying took place in February.

Short Term Fair Value Modelling: This week, we monitor the relationships between spot prices and fair values in our short-term regression models. Recently, our models have identified significant divergences between spot prices and fair values for USD/JPY, GBP/USD, and EUR/USD.

MIXED USD PERFORMANCE BUT LOW-YIELDERS UNDERPERFORM



Source: Bloomberg, 13.35 GMT, 14th March 2025 (Weekly % Change vs. USD)

JPY: BoJ to confirm on track to hike again

Underperformance points to possible crowded short-term long JPY positioning

USD/JPY has been on a steady sustained decline since hitting an intra-day high in January (158.87 on 10th) and on Tuesday hit an intra-day low of the year of 146.54, a move close to an 8% drop that looks to have been helped by a notable shift in short-term speculative positioning. The weekly CFTC data shows a swing in January from the largest short JPY positioning amongst Leveraged Funds since July last year to the latest data which shows the first outright long JPY position since October last year. The reversal in that strong downward momentum this week does suggest to us that positioning may have become crowded for now. The yen is the second worst performing G10 currency this week. There is still evidence of co-movement with short-term US yield moves with the 2-year UST bond yield currently up 14bps from the intra-day year-to-date low on Tuesday when USD/JPY also hit the intra-day year-to-date low. Still, USD/JPY is sharply higher today on a day of limited US yield moves and points to a squeeze in long JPY positions into the end of the week. A more favourable turn in risk appetite has also encouraged this JPY sell-off with China set to hold a press conference on Monday focusing on policies to support consumption and the decision of Senate Minority leader Chuck Schumer to support the GOP's continuing resolution bill to provide a 6mth extension to fund government spending which therefore avoids a potential damaging government shutdown from tonight.

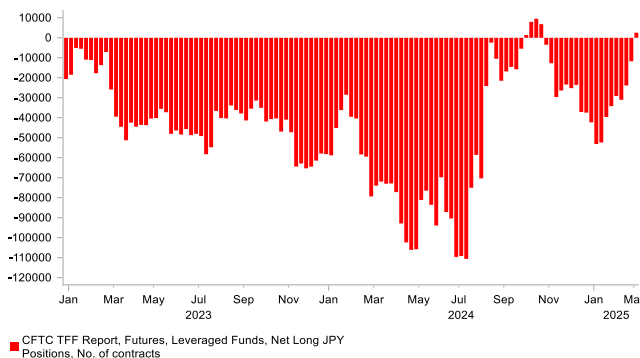
Political uncertainty may have encouraged JPY selling today

The depreciation of the yen was likely reinforced by the emergence of renewed political risks. The Asahi newspaper reported last night that PM Ishiba had distributed gift vouchers (JPY 100k) to fifteen new LDP members of parliament that runs close to the scandal that hit the LDP previously over campaign funds being passed to factions within the LDP. PM Ishiba today denied any wrongdoing but apologised for any confusion. Public support for PM Ishiba dropped to 40%, the lowest since he took office in October according to a Nikkei poll published last month. One Upper House LDP member has called for PM Ishiba to resign once the budget has been passed.

BoJ to keep policy stance unchanged but market focus will be on terminal rate view

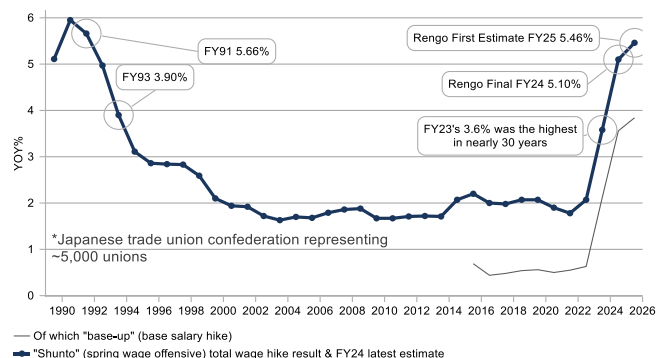
The key focus for JPY next week will come on Wednesday with the BoJ policy meeting followed later in the day by the FOMC policy announcement. The market is fully priced for no change in policy but recent speeches on the topic of the 'terminal rate' means investors will be focused on any signal from Governor Ueda on a potential hint that the terminal rate could be higher. A Bloomberg survey this week (52 respondents) indicated 1.25% as the median level for the terminal rate with a range of 0.50% to 2.50%. But the survey also indicated concerns over the BoJ potentially being too cautious in hiking with 39% seeing a "real risk" of the BoJ falling behind the curve and a further 27% saying it was difficult to tell. 55% believed it was a "high" or "very high" hurdle for the BoJ to buy JGBs if yields increased rapidly. Deputy Governor Uchida in

LEVERAGED FUNDS TURN LONG JPY



Source: Bloomberg, Macrobond & MUFG GMR

RENGO FY25 FIRST ESTIMATE HIGHEST SINCE FY91



Source: Bloomberg, Macrobond & MUFG GMR

a speech on 5th March stated that the BoJ didn't know the terminal rate and that it would not be good communication for the BoJ to cite a level anyway. Policy Board Member Hajime Takata in February spoke of the range for the neutral rate being very wide and concluded in a speech that conditions are falling into place that would require the BoJ to return to "policy conduct that is in line with what is seen in normal times". That speech helped lift market expectations of the terminal rate which has now gone from around 0.90% at the end of 2024 to close to 1.20% now.

Ueda likely to be more cautious but signal progress and hence implying further hikes

We would expect this adjustment in the pricing of the terminal rate to be maintained following the BoJ meeting. While we doubt Governor Ueda will dwell on the topic of the terminal rate he will likely confirm progress continues to be made in reaching the inflation goal. The Rengo wage announcement today is a very important part of this BoJ view being maintained. The 'shunto' wage negotiation by Rengo came in at 5.46% with a base pay of 3.84% above the Bloomberg consensus (5.1% & 3.4%) and will clear Governor Ueda to signal further hikes ahead. We expect the next 25bp hike in July but there is a risk of it coming sooner, in June.

GPIF announcement supports JGB yields

The Nikkei reported this week that the Government Pension Investment Fund would not be changing its asset allocation in conclusion to its latest 5-year review, which means an even 25% split will be maintained across domestic and foreign bonds and equities. There had been speculation given the rise in JGB yields that the GPIF would increase its allocation to JGBs. With GPIF assets now at JPY 260trn (USD 1.7trn) small shifts in allocation would be meaningful. Still, scope remains for increased JGB buying with a +/-7% range from the 25% midpoint.

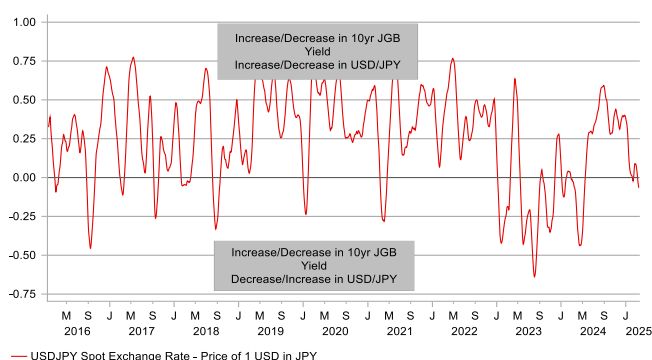
JGB yields to remain JPY supportive

The chart below highlights the reasserting negative correlation between USD/JPY and the 10-year JGB yield that suggests the shift higher in yields fuelled by the gradual grind higher in the estimate of the terminal rate has influenced USD/JPY lower this year. The more usual positive correlation reflects the influence of US Treasury yields on JGBs and hence higher JGB yields (driven by USTs) lifts USD/JPY. The shift this year therefore is also reflected in the sharp narrowing of the 10-year US-JP spread. The 10-year US-JP spread has narrowed by close to 100bps in a 40-day period since 13th Jan – one of the largest declines since the GFC (below).

BoJ decision unlikely to derail trend of lower USD/JPY

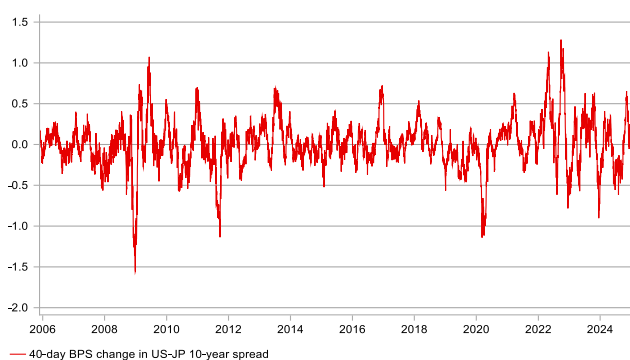
Barring a shock surprise communication from the FOMC, we expect JGB yields to be driven by the outcome of the BoJ meeting with a clear message that the BoJ is on track to hike again later in the year with encouragement provided by the strong wage growth this week. That will support JGB yields and the yen. Less favourable risk conditions post reciprocal tariff day on 2nd April is likely another factor that will curtail yen selling going forward. Our bias remains selling USD/JPY on rallies.

NEGATIVE JGB USD/JPY CORRELATION RETURNING



Source: Bloomberg, Macrobond & MUFG GMR

LARGEST 40-DAY DROP IN US-JP SPREAD SINCE COVID



Source: Bloomberg, Macrobond & MUFG GMR

GBP: BoE to stick to plans for quarterly rate cuts as UK inflation picks up

GBP boosted vs. USD by improving investor sentiment towards Europe but less so than EUR

Policy divergence between BoE and ECB to be less than expected as ECB under less pressure to cut rates below 2.00% as German fiscal stimulus provides support for economy. Major euro-zone economies still expected to be hit harder by US tariffs than UK.

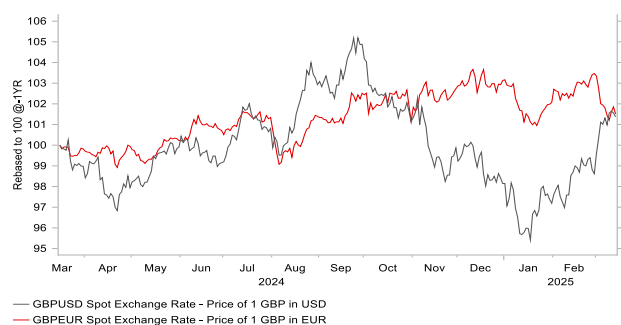
BoE to leave rates on hold next week and continue to signal another quarterly cut likely in May. GBP should continue to perform well unless deepening equity market sell-off undermines financial stability.

The GBP has outperformed alongside other European currencies this month benefitting from the significant improvement in investor sentiment towards the region. It has helped to lift cable back up towards the 1.3000-level for the first time since last year's US election. In contrast, the GBP has weakened modestly against the EUR lifting EUR/GBP back above the 0.8400-level for the second time this year. The EUR is expected to benefit more than the GBP from Germany's plans for looser fiscal policy ([click here](#)). The last time EUR/GBP rose above 0.8400 in January it was driven more by negative sentiment towards the GBP reflecting concerns over UK government debt.

Market participants now expect monetary policies between the ECB and BoE to diverge less going forward which has helped to narrow yield spreads in favour of a stronger EUR. At the ECB's last policy meeting ([click here](#)) they left the door open for further modest rate cuts with the policy rate now closer to the neutral estimate put forward by President Lagarde between 1.75% and 2.25%. Based on our assumption that legislation is passed next week on Tuesday to boost fiscal policy in Germany, it will ease pressure on the ECB to lower rates below neutral. The main risk to that view would be a much bigger hit to growth in Europe from President Trump's upcoming plans for trade tariffs in early April. The EU's decision to quickly retaliate by imposing tariff hikes from next month on EUR26 billion of US imports in response to US tariff hikes on steel and aluminium imports has angered President Trump, and he has since threatened to impose 200% tariffs on over USD10 billion of alcohol imports from the EU. In contrast, the Trump administration has praised the UK government for their decision not to retaliate. It will further encourage market expectations that the UK economy will not be hit as hard by further tariff hikes in the coming months.

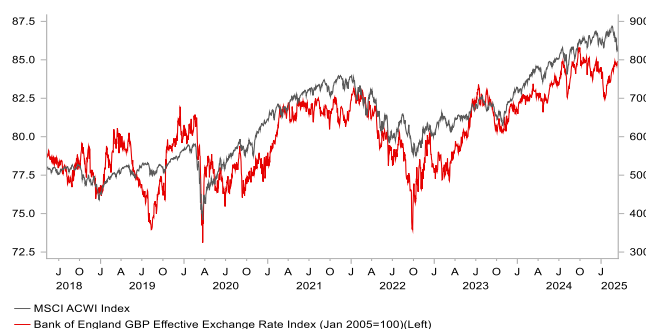
Market expectations for BoE policy have recently been relatively more stable than for the ECB. The UK rate market is still expecting the BoE to stick to the current quarterly pace of rate cuts by delivering the next rate cut in May (17bps of cuts priced in) and then again in August (38bps of cuts priced in). However, there is less confidence that rates will fall further below 4.00% by the end of this year. It is helping to keep yields in the UK at higher levels than on offer in other major economies providing support for the GBP. The BoE holds their latest policy meeting next week. Ahead of that meeting UK economic data has been improving with the exception of today's softer UK GDP report for January. Overall it points to strengthening growth momentum since late year. At the same time the slowdown in services inflation and wage growth remains frustratingly slow. It will become more uncomfortable for the BoE to keep cutting rates heading into the summer when inflation is expected to temporarily pick up towards 4.0%. Overall, the GBP remains attractive. A deeper sell-off for global equity markets that undermines financial stability poses the main downside risk for the GBP.

GBP STRENGTHENS VS. USD BUT SOFTER VS. EUR



Source: Bloomberg, Macrobond & MUFG GMR

DEEPER EQUITY SELL-OFF COULD WEIGH ON GBP



Source: Bloomberg, Macrobond & MUFG GMR

Weekly Calendar

Ccy	Date	GMT	Indicator/Event	Period	Consensus	Previous	Mkt Moving
CNY	17/03/2025	02:00	Industrial Production YTD YoY	Feb	5.3%	--	!!
CNY	17/03/2025	02:00	Retail Sales YTD YoY	Feb	3.8%	--	!!
CNY	17/03/2025	02:00	Fixed Assets Ex Rural YTD YoY	Feb	3.2%	--	!!
USD	17/03/2025	12:30	Retail Sales Advance MoM	Feb	0.7%	-0.9%	!!!
EUR	18/03/2025	10:00	Trade Balance SA	Jan	--	14.6b	!!
USD	18/03/2025	12:30	Housing Starts	Feb	1383k	1366k	!!
CAD	18/03/2025	12:30	CPI YoY	Feb	--	1.9%	!!!
USD	18/03/2025	12:30	Import Price Index MoM	Feb	-0.1%	0.3%	!!
USD	18/03/2025	13:15	Industrial Production MoM	Feb	0.3%	0.5%	!!
JPY	18/03/2025	23:50	Trade Balance	Feb	¥722.8b	-¥2758.8b	!!
JPY	19/03/2025	Tbc	BOJ Target Rate		0.50%	0.50%	!!!
JPY	19/03/2025	04:30	Industrial Production MoM	Jan F	--	-1.1%	!!
EUR	19/03/2025	10:00	Labour Costs YoY	4Q	--	4.6%	!!!
EUR	19/03/2025	10:00	CPI YoY	Feb F	--	2.4%	!!
EUR	19/03/2025	10:45	ECB's Villeroy speaks				!!
USD	19/03/2025	18:00	FOMC Rate Decision (Upper Bound)		4.50%	4.50%	!!!
USD	19/03/2025	21:45	GDP SA QoQ	4Q	0.4%	-1.0%	!!
AUD	20/03/2025	00:30	Employment Change	Feb	28.0k	44.0k	!!
GBP	20/03/2025	07:00	Average Weekly Earnings 3M/YoY	Jan	--	6.0%	!!!
GBP	20/03/2025	07:00	Employment Change 3M/3M	Jan	--	107k	!!
CHF	20/03/2025	08:30	SNB Policy Rate		0.25%	0.5%	!!!
SEK	20/03/2025	08:30	Riksbank Policy Rate		2.25%	2.25%	!!!
CHF	20/03/2025	09:00	SNB's Schlegel Speaks				!!
GBP	20/03/2025	12:00	Bank of England Bank Rate		4.50%	4.50%	!!!
EUR	20/03/2025	12:00	ECB's Lane Speaks				!!
USD	20/03/2025	12:30	Current Account Balance	4Q	--	-\$310.9b	!!
USD	20/03/2025	12:30	Initial Jobless Claims		--	--	!!
JPY	20/03/2025	23:30	Natl CPI YoY	Feb	3.6%	4.0%	!!!
GBP	21/03/2025	07:00	Public Sector Net Borrowing	Feb	--	-15.4b	!!
CAD	21/03/2025	12:30	Retail Sales MoM	Jan	--	2.5%	!!

Source: Bloomberg, Macrobond & MUFG GMR

Key Events:

- There is a busy schedule of central bank meetings in the week ahead. The BoJ and the Fed hold their latest policy meetings on Wednesday followed by the SNB, Riksbank and BoE on Thursday.
- The BoJ are expected to leave their policy rate unchanged at 0.50% after raising rates by a further 25bps at their previous policy meeting in January. The updated policy guidance will be scrutinized closely to assess the likely timing of the next BoJ rate hike. The Japanese rate market is currently pricing in around 7bps of hikes by the following meeting in May and 13bps by the June policy meeting. Recent communication from the BoJ has remained hawkish indicating that further rate hikes will be delivered if the economy evolves in line with their outlook.
- The Fed is expected to leave rates on hold again in the week ahead. Fed Chair Powell reiterated recently that they are not in a hurry to cut rates again amidst heightened uncertainty over the implementation of President Trump's policy platform. At the current juncture, we expect only modest changes to the Fed's growth and inflation forecasts. As a result, the updated DOT plot is likely to be similar to from December still projecting two further rate cuts this year and next.
- The BoE is expected to leave rates on hold at 4.50% following the 25bps rate cut delivered in February. The vote count will attract market attention again after the dovish surprise in February when MPC member Catherine Mann voted for a larger 50bps cut. We still expect the BoE to stick the current quarterly pace of rate cuts and leave the door open next week to another cut in May. Risks are tilted towards more hawkish guidance to reflect concerns over wage growth and stronger activity data recently.

Open Trade Ideas

LONG USD/SEK – OPEN @ 10.120 (TARGET @ 10.420 & STOP-LOSS @ 9.9200)

SEK to correct lower after outsized rally at start of this year

We are recommending a new long USD/SEK trade idea to position for a reversal. The SEK has been by far the best performing G10 currency this month. Over the last thirty trading days the SEK has strengthened sharply against both the EUR and USD by over two standard deviations when looking back at price action over the last twenty years. The last time we saw similar sized sell-offs for USD/SEK was in December 2023 and December 2022. On both occasions it marked a bottom for USD/SEK which was followed by a rebound for the pair. At the same time our short-term valuation model is signalling that USD/SEK is currently the most undervalued G10 currency pair.

The SEK has already strengthened significantly in response to building investor optimism over improving growth prospects in Europe from Germany's plans for looser fiscal policy and progress towards a peace deal between Ukraine and Russia. We now believe that a lot of that good news is well priced in now, and the SEK appears to have overshot short-term fundamental drivers. The Swedish rate market is also better priced for the Riksbank to leave rates on hold for the rest of this year after upside inflation surprises at the start of this year. As a result, we expect the SEK to correct lower without fresh catalysts to inject upward momentum. A deeper equity market sell-off and/or building concerns over trade disruption to the EU from Trump's tariff plans in early April could trigger a bigger setback for the SEK.

Open Trade Ideas

SHORT EUR/JPY – OPEN @ 157.60 (TARGET @ 150.00 & STOP-LOSS @ 163.00)

EUR/JPY remains overvalued and more likely to correct lower once current optimism over Europe starts to fade

Our trade idea has been negatively impacted by the size of Germany's plans for infrastructure and defence spending that would present a significant loosening of fiscal policy. European bond yields and equity markets have risen sharply to reflect the improving outlook for growth in the region, and higher debt levels. More government spending will also reduce pressure on the ECB to keep lowering rates below neutral. It has helped to lift the euro against other major currencies including the JPY. However, EUR upside against the JPY has been more modest. The JPY is continuing to benefit from rising yields in Japan. The 10-year JGB yield has risen above 1.50% ahead of next week's BoJ policy meeting. The ongoing narrowing of yield differentials between Japan and other major economies is making it harder to justify the JPY remaining at such deeply undervalued levels. We still expect the JPY to strengthen further against the EUR. Potential catalysts could include: i) the BoJ maintaining hawkish policy guidance at next week's policy meeting and displaying more confidence stronger wage growth will be sustained, ii) President Trump putting in place significant tariffs against the EU in early April and iii) continued weakness in eurozone economic data in the coming months putting a dampener on current optimism over a quicker recovery in growth once fiscal stimulus starts to be implemented

FX Portfolio

Trade idea	Notional	Entry Date	Entry Level	Current	S/L	Target	Spot P&L	Carry P&L	Portfolio Contribution
Closed Trades									
Short USD/JPY	USD 5mn	07/07/2023	143.00	138.00	143.00	138.00	174,825	-3,605	171,220
Long AUD/NZD	USD 5mn	02/06/2023	1.0870	1.0770	1.0700	1.1200	-46,352	-6,619	-52,971
Long EUR/USD	USD 5mn	16/06/2023	1.0920	1.1020	1.1020	1.1370	45,591	-6,888	38,703
Short EUR/USD	USD 5mn	11/08/2023	1.0990	1.0770	1.1160	1.0770	100,091	2,185	102,276
Long USD/SEK	USD 5mn	25/08/2023	11.000	10.930	10.650	11.450	-31,818	7,114	-24,704
Short GBP/CAD	USD 5mn	15/09/2023	1.6800	1.6450	1.7050	1.6300	104,167	-476	103,691
Long USD/ZAR	USD 5mn	06/10/2023	19.450	18.900	18.900	20.350	-141,388	-864	-142,252
Long AUD/NZD	USD 5mn	13/10/2023	1.0680	1.0830	1.0600	1.0830	70,225	-796	69,429
Short GBP/CAD	USD 5mn	20/10/2023	1.6630	1.6756	1.6880	1.6250	-54,905	-145	-55,050
Short USD/MXN	USD 5mn	03/11/2023	17.400	17.800	17.800	16.900	-114,943	3,535	-111,408
Short USD/SEK	USD 5mn	03/11/2023	10.980	10.650	11.200	10.6500	150,273	-940	149,333
Short USD/JPY	USD 5mn	17/11/2023	149.60	143.00	152.10	143.00	220,588	-10,544	210,044
Short EUR/JPY	USD 5mn	08/12/2023	155.35	158.80	158.80	149.00	-111,040	-17,144	-128,183
Short EUR/NOK	USD 5mn	15/12/2023	11.460	11.260	11.660	10.960	87,260	7,003	94,264
Long USD/CHF	USD 5mn	19/01/2024	0.8685	0.8815	0.8500	0.8900	74,842	13,250	88,092
Short EUR/GBP	USD 5mn	26/01/2024	0.8535	0.8580	0.8675	0.8275	-26,362	3,780	-22,562
Long EUR/SEK	USD 5mn	22/03/2024	11.390	11.700	11.200	11.700	136,084	332	136,417
Short CHF/JPY	USD 5mn	08/03/2024	168.00	170.00	171.00	163.00	-88,943	-10,973	-99,916
Long AUD/NOK	USD 5mn	26/04/2024	7.1900	7.1600	7.0500	7.4000	-20,862	258	-20,604
Long EUR/GBP	USD 5mn	03/05/2024	0.8605	0.8525	0.8450	0.8700	-15,116	-3,038	-18,154
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
Open Trades									
Short EUR/JPY	USD 5mn	07/02/2025	157.60	161.89	163.00	150.00	-136,104	-8,293	-144,398
New Trades									
Long USD/SEK	USD 5mn	14/03/2025	10.120		9.9200	10.420			

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

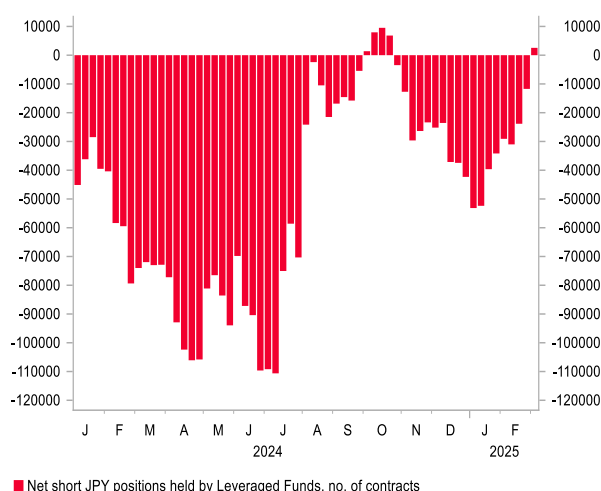
FX Positioning

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.

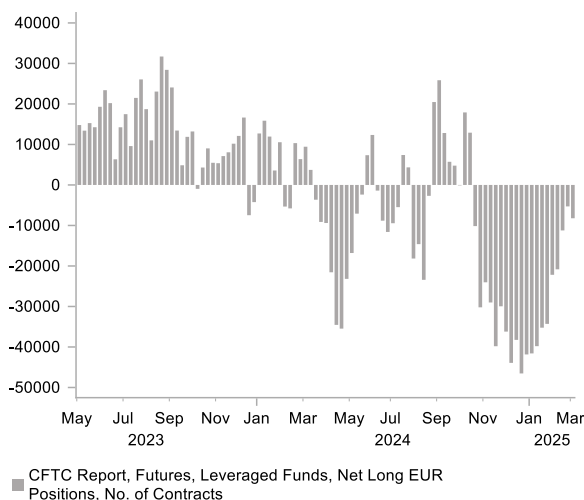
BREAKDOWN BY INVESTORS

Asset Manager/Institutional			Leveraged Funds			Asset Manager/ Institutional & Leveraged Funds		
	No. of contracts	Z-Score		No. of contracts	Z-Score		No. of contracts	Z-Score
AUD	-45,370	0.42	AUD	-28,373	-1.27	AUD	-73,743	-0.25
BRL	78,334	2.65	BRL	-11,170	-1.03	BRL	67,164	1.98
CAD	-147,153	-1.57	CAD	-64,580	-0.69	CAD	-211,733	-1.31
CHF	-35,812	-1.70	CHF	-15,096	-1.60	CHF	-50,908	-1.53
EUR	211,724	-1.07	EUR	-8,222	-0.37	EUR	203,502	-0.97
GBP	-44,639	-0.45	GBP	33,750	0.09	GBP	-10,889	-0.32
JPY	83,769	2.92	JPY	2,550	1.83	JPY	86,319	2.66
MXN	7,208	-1.72	MXN	-16,685	-1.56	MXN	-9,477	-1.83
NZD	-51,528	-2.70	NZD	-8,919	-1.51	NZD	-60,447	-2.50
USD	-70,656	0.65	USD	129,537	0.83	USD	58,881	0.74
ZAR	14,123	0.32	ZAR	-12,792	-0.46	ZAR	1,331	0.01

JPY POSITIONING SHIFTS TO LONG



EURO SHORTS HAVE BEEN CUT BACK

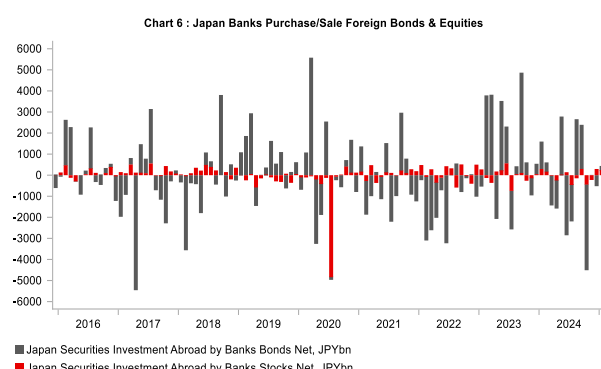
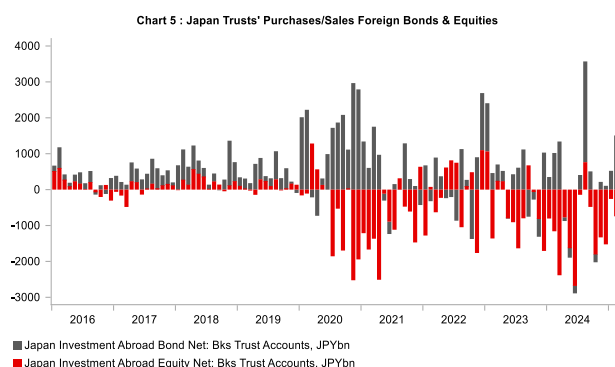
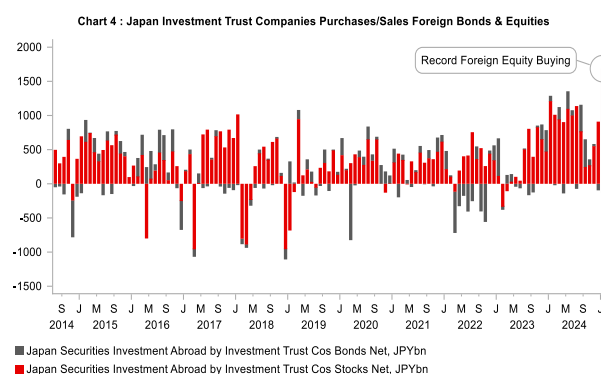
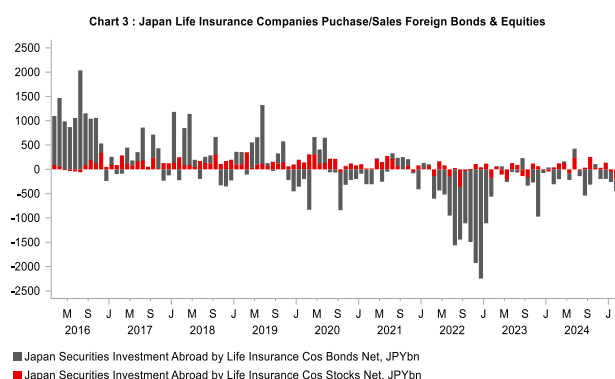
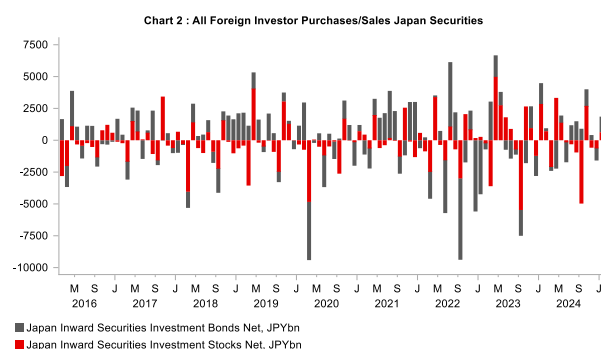
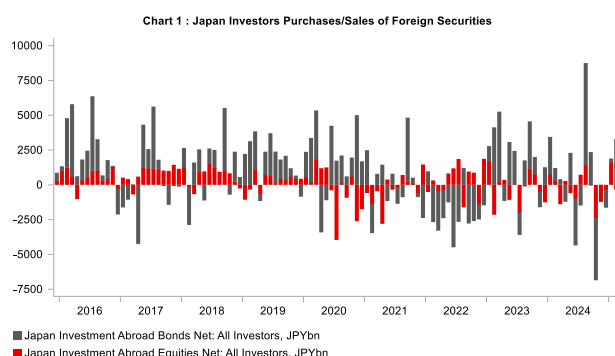


Source: Bloomberg, CFTC, Macrobond & MUFG GMR (as of 4th April 2025)

Key Takeaways:

- The latest IMM weekly positioning data covering the week to 4th April revealed that Leveraged Funds cut back long USD positions for the fifth consecutive week. Long USD positioning had fallen back to levels from early in December. The biggest long USD positions are still held against the AUD and CAD.
- The biggest changes in Leveraged Funds' positioning in the latest week have been: i) an increase in long JPY positions by 14,270 contracts, ii) a decrease in short BRL positions by 9,183 contracts, iii) an increase in short MXN positions by 11,074 contracts, iv) a decrease in short NZD positions by 5,816 contracts and v) a decrease in short ZAR positions by 5,975 contracts. It was the first long JPY position held by Leveraged Funds since the week ending 22nd October.
- Our two-year rolling z-scores signal revealed that short CHF, MXN & NZD positions were the most stretched amongst Leveraged Funds.

JPY Flows – Portfolio investments by investor type



Source: Macrobond, Bloomberg, MUFG Research

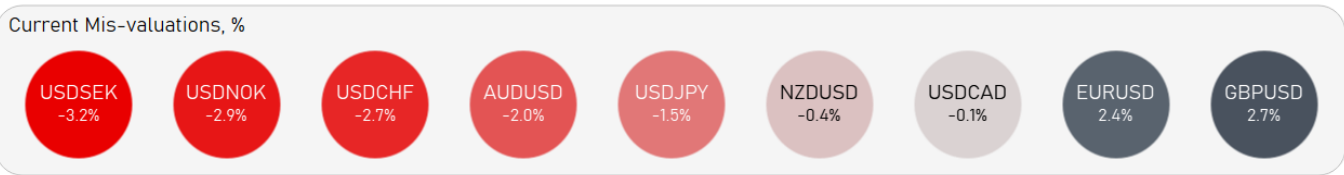
Key Takeaways:

- The Ministry of Finance monthly International Transactions in Securities data for February was released last week and Chart 1 indicates a strong rebound in foreign bond buying by Japanese investors, with JPY 3,303bn worth of purchases, the largest since the record set in August last year. High-to-low, the 10-year UST bond yield dropped by around 40bps in February as US downturn fears escalated. The rally in fixed income and the drop in USD/JPY helped entice Japanese investors back into foreign bond markets. Equity market volatility also picked up in February with some sharp declines in tech/AI stocks that encouraged selling by Japanese investors as well.
- Chart 2 tells us what happened the other way and foreign investors were also fixed income buyers and equity sellers in Japan. The demand for Japan bonds was very strong with JPY 1,807bn worth of buying, the largest buying since March 2023. The equity sell-off on increased fears over tech prompted foreign investors to sell JPY 2,483bn worth of Japan stocks, the largest since September last year.
- Chart 3 indicates little has changed in terms of appetite for foreign securities by life insurance companies which is in contrast to the appetite by investment trust companies. The vehicle in which NISA investments are made, the new year for investments revealed a surge in foreign equity buying of JPY 1,686bn in January and was followed by a further JPY 718bn worth of buying in February (chart 4). The new more generous tax free thresholds for Japanese households continues to fuel greater foreign securities buying which have helped right-hand side USD/JPY flows.
- Japan trust flows, which covers real money flows including GPIF, saw a rebound in foreign bond buying with JPY 1,508bn worth of buying in February, the largest since August last year (Chart 5). Therefore, unusually, Japan banks were not the dominant buyer of foreign bond bonds in February with a smaller purchase total than trusts, totalling JPY 914bn (Chart 6).

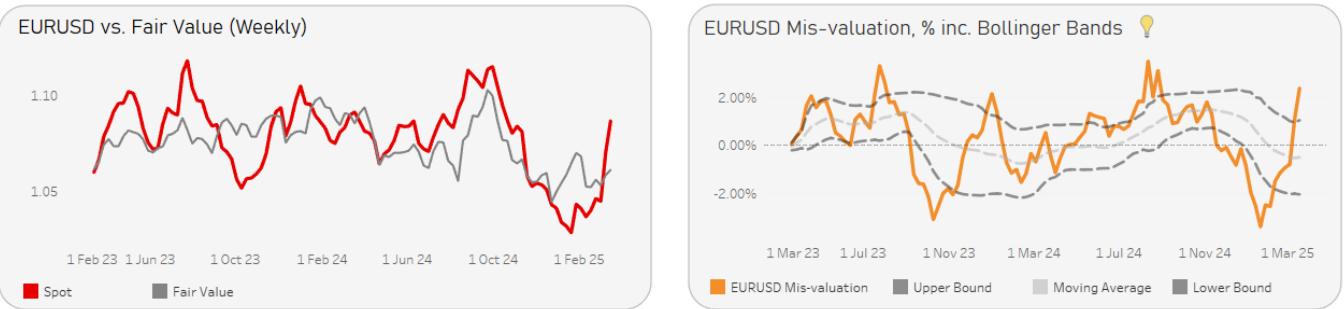
Short Term Fair Value Modelling

Short-term fair value modelling estimates the equilibrium exchange rate of a currency pair by analysing market fundamentals to evaluate its "fair value." For each currency pair, our models are trained using structurally specific fundamentals, this includes interest rate differentials, inflation rate differentials, geopolitical risk sentiment, economic growth metrics, and volatility. Our model operates on a rolling 4-year basis at a weekly level of detail. Short-term discrepancies between the spot price and the model indicate that a currency pair is misaligned with financial and economic fundamentals, suggesting that the market is factoring a risk premium into the currency pair.

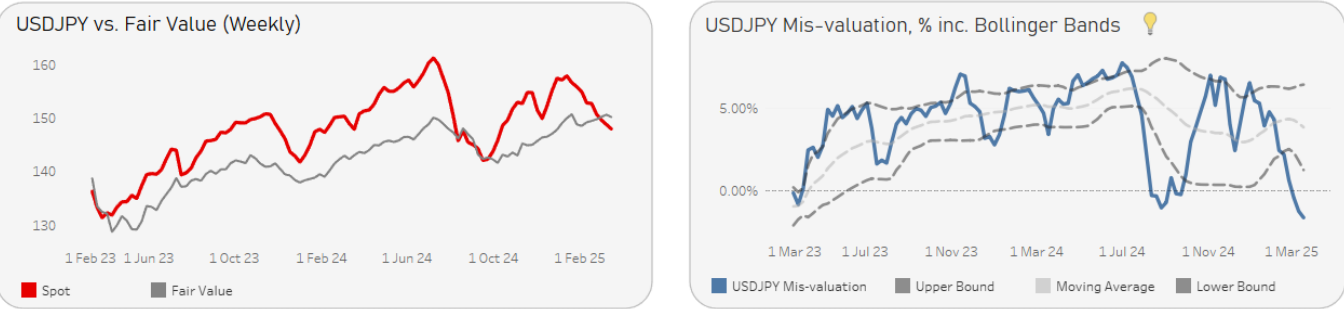
G10 MODEL PERFORMANCE (ROLLING 4-YR)



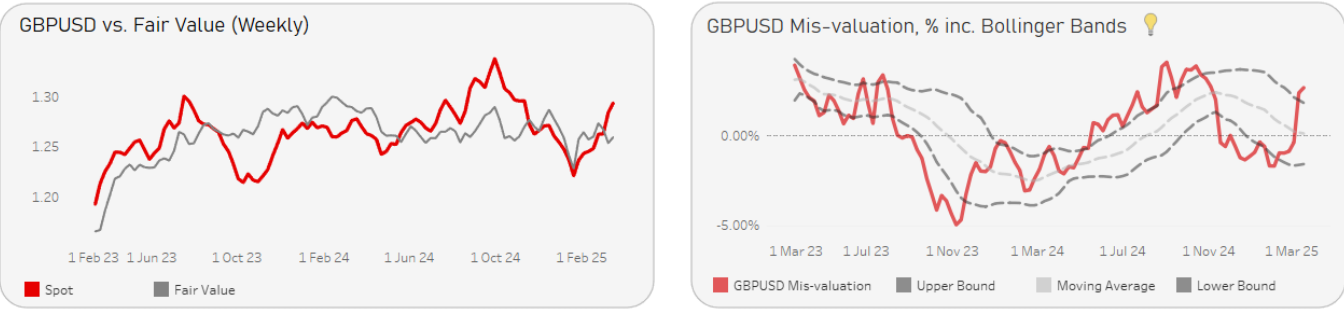
EUR/USD FAIR VALUE MODELLING



USD/JPY FAIR VALUE MODELLING

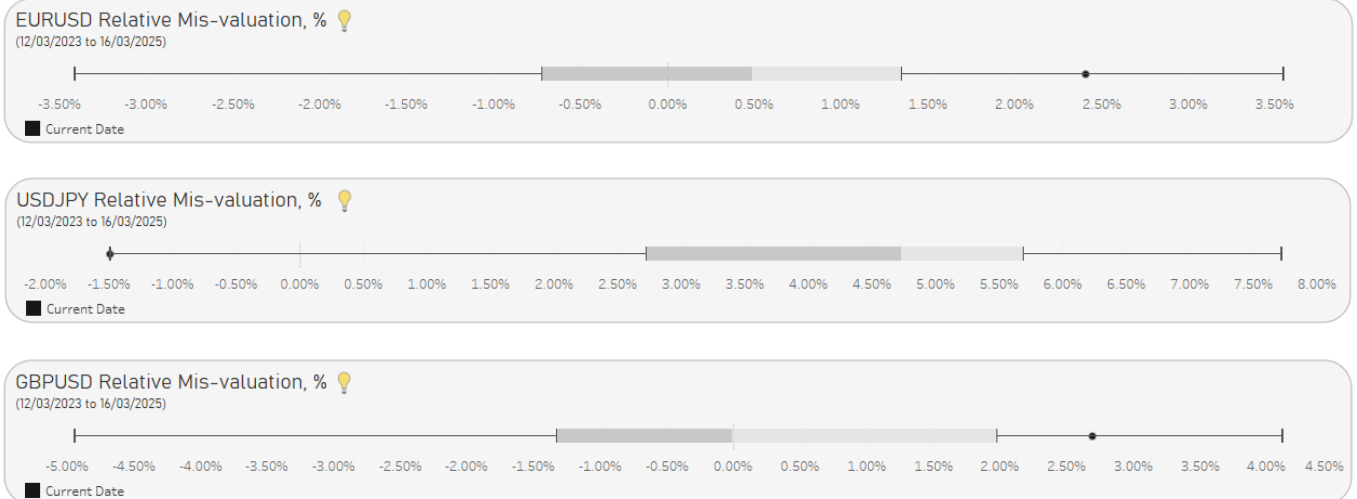


GBP/USD FAIR VALUE MODELLING



RELATIVE MISVALUATION (ROLLING 4-YR)

A boxplot is a graphical tool that illustrates the distribution of historical model mis-valuations. The whiskers extending from the box show the range of typical mis-valuations, with the top whisker indicating the highest value and the bottom whisker indicating the lowest. The box itself is divided into three sections: the upper quartile (top part), median (middle line), and lower quartile (bottom part), representing the values below which 75%, 50%, and 25% of the data. Additionally, the circle marks the current mis-valuation of the spot price, allowing us to compare today's valuation with historical data.



Source: Bloomberg, Macrobond & MUFG GMR

Key Takeaways:

- This week, we monitor the relationships between spot prices and fair values in our short-term regression models. After last week's historic sell-off of the US dollar due to trade tariff uncertainty, we observe ongoing instability as the US dollar continues to decline on a BBDXY (Bloomberg Dollar Spot Index) basis. Recently, our models have identified significant divergences between spot prices and fair values for USD/JPY, GBP/USD, and EUR/USD.
- The equilibrium model suggests a fair value of 150.00 for USD/JPY, yet the actual spot price has dropped below, indicating significant undervaluation. Bollinger Bands applied to the current mis-valuation of -1.49% is below the 1 Std. Dev lower band. For GBP/USD, the model indicates a fair value of 1.2600, but the spot price has risen above, suggesting significant overvaluation of 2.69% which is above the 1 Std. Dev upper band. Similarly, EUR/USD's fair value is estimated at 1.0600, while the spot price has surged above, indicating overvaluation of 2.43% which is above the 1 Std. Dev upper band.
- FX implication: Given the combination of fundamental and technical factors, it is likely that EUR/USD and GBP/USD will correct lower in the near term. Market participants should be cautious and consider the potential for a significant reversal lower.

FX Correlation Heatmaps

Our heatmaps display correlations between daily % changes for variables over the last 30 trading days.

G10 FX CORRELATION HEATMAP

30-day Rolling Correlations Daily % Change		EUR/USD	GBP/USD	USD/CAD	USD/JPY	USD/SEK	USD/NOK	AUD/USD	NZD/USD	USD/CHF	S&P 500	MSCI World	MSCI EM	Brent Oil	Gold	Copper	US 2YR Govt Yld	US 10YR Govt Yld	EMBI Global Sprd
FX	EUR/USD	1.00	0.86	-0.45	-0.29	-0.89	-0.79	0.73	0.77	-0.60	0.08	0.19	0.13	-0.34	0.18	0.21	0.07	0.05	-0.17
	GBP/USD	0.86	1.00	-0.59	-0.31	-0.83	-0.65	0.72	0.72	-0.64	0.12	0.19	0.06	-0.20	0.28	0.18	0.14	0.01	-0.10
	USD/CAD	-0.45	-0.59	1.00	0.28	0.42	0.52	-0.75	-0.67	0.50	-0.23	-0.24	-0.23	0.00	-0.33	-0.30	-0.29	-0.16	0.03
	USD/JPY	-0.29	-0.31	0.28	1.00	0.45	0.41	-0.37	-0.49	0.46	0.02	-0.11	-0.21	0.25	-0.02	-0.14	0.37	0.56	-0.33
	USD/SEK	-0.89	-0.83	0.42	0.45	1.00	0.76	-0.66	-0.67	0.59	-0.09	-0.24	-0.19	0.34	-0.25	-0.27	0.02	0.11	0.05
	USD/NOK	-0.79	-0.65	0.52	0.41	0.76	1.00	-0.71	-0.73	0.50	-0.09	-0.15	-0.10	0.13	-0.21	-0.26	0.10	0.08	-0.05
	AUD/USD	0.73	0.72	-0.75	-0.37	-0.66	-0.71	1.00	0.94	-0.53	0.28	0.33	0.24	-0.09	0.33	0.29	0.22	0.12	-0.20
	NZD/USD	0.77	0.72	-0.67	-0.49	-0.67	-0.73	0.94	1.00	-0.61	0.12	0.20	0.30	-0.22	0.15	0.24	0.04	-0.03	-0.09
	USD/CHF	-0.60	-0.64	0.50	0.46	0.59	0.50	-0.53	-0.61	1.00	0.06	-0.02	-0.10	0.18	-0.16	0.06	0.21	0.32	-0.20
Equities	S&P 500	0.08	0.12	-0.23	0.02	-0.09	-0.09	0.28	0.12	0.06	1.00	0.97	0.14	0.18	0.21	0.16	0.20	0.03	-0.36
	MSCI World	0.19	0.19	-0.24	-0.11	-0.24	-0.15	0.33	0.20	-0.02	0.97	1.00	0.31	0.10	0.25	0.26	0.15	-0.03	-0.36
	MSCI EM	0.13	0.06	-0.23	-0.21	-0.19	-0.10	0.24	0.30	-0.10	0.14	0.31	1.00	-0.07	0.19	0.36	0.13	0.14	-0.23
Commodities	Brent Oil	-0.34	-0.20	0.00	0.25	0.34	0.13	-0.09	-0.22	0.18	0.18	0.10	-0.07	1.00	0.13	-0.14	0.32	0.37	-0.12
	Gold	0.18	0.28	-0.33	-0.02	-0.25	-0.21	0.33	0.15	-0.16	0.21	0.25	0.19	0.13	1.00	0.38	0.39	0.27	-0.23
	Copper	0.21	0.18	-0.30	-0.14	-0.27	-0.26	0.29	0.24	0.06	0.16	0.26	0.36	-0.14	0.38	1.00	0.32	0.17	-0.24
FI	US 2YR Govt Yld	0.07	0.14	-0.29	0.37	0.02	0.10	0.22	0.04	0.21	0.20	0.15	0.13	0.32	0.39	0.32	1.00	0.88	-0.70
	US 10YR Govt Yld	0.05	0.01	-0.16	0.56	0.11	0.08	0.12	-0.03	0.32	0.03	-0.03	0.14	0.37	0.27	0.17	0.88	1.00	-0.60
	EMBI Global Sprd	-0.17	-0.10	0.03	-0.33	0.05	-0.05	-0.20	-0.09	-0.20	-0.36	-0.36	-0.23	-0.12	-0.23	-0.24	-0.70	-0.60	1.00

EM FX CORRELATION HEATMAP

30-day Rolling Correlations Daily % Change		USD/CNY	USD/KRW	USD/ZAR	USD/TRY	USD/CZK	USD/RUB	USD/MXN	USD/BRL	USD/CLP	S&P 500	MSCI World	MSCI EM	Brent Oil	Gold	Copper	US 2YR Govt Yld	US 10YR Govt Yld	EMBI Global Sprd
FX	USD/CNY	1.00	0.41	0.38	-0.05	0.62	0.00	0.44	0.49	0.49	-0.22	-0.23	-0.06	0.06	-0.02	-0.04	-0.17	-0.17	0.24
	USD/KRW	0.41	1.00	0.57	0.16	0.64	0.17	0.07	0.40	0.64	-0.36	-0.48	-0.61	0.14	-0.40	-0.34	-0.01	0.14	0.16
	USD/ZAR	0.38	0.57	1.00	0.28	0.54	0.24	0.33	0.42	0.63	0.16	-0.02	-0.57	0.16	-0.14	-0.35	-0.12	-0.07	0.14
	USD/TRY	-0.05	0.16	0.28	1.00	0.25	0.11	-0.23	0.07	0.40	-0.23	-0.31	-0.18	-0.20	-0.13	-0.18	0.09	0.01	0.09
	USD/CZK	0.62	0.64	0.54	0.25	1.00	0.19	0.30	0.49	0.73	-0.19	-0.30	-0.19	0.29	-0.20	-0.25	-0.10	-0.02	0.21
	USD/RUB	0.00	0.17	0.24	0.11	0.19	1.00	-0.10	-0.20	0.19	0.13	0.05	0.00	0.24	-0.18	-0.19	0.18	0.22	-0.30
	USD/MXN	0.44	0.07	0.33	-0.23	0.30	-0.10	1.00	0.53	0.10	-0.09	-0.05	-0.01	0.00	0.08	-0.11	-0.39	-0.33	0.23
	USD/BRL	0.49	0.40	0.42	0.07	0.49	-0.20	0.53	1.00	0.59	-0.27	-0.32	-0.37	0.03	-0.06	-0.27	-0.30	-0.32	0.40
	USD/CLP	0.49	0.64	0.63	0.40	0.73	0.19	0.10	0.59	1.00	-0.29	-0.45	-0.56	0.19	-0.39	-0.44	-0.26	-0.16	0.35
Equities	S&P 500	-0.22	-0.36	0.16	-0.23	-0.19	0.13	-0.09	-0.27	-0.29	1.00	0.97	0.14	0.18	0.21	0.16	0.20	0.03	-0.36
	MSCI World	-0.23	-0.48	-0.02	-0.31	-0.30	0.05	-0.05	-0.32	-0.45	0.97	1.00	0.31	0.10	0.25	0.26	0.15	-0.03	-0.36
	MSCI EM	-0.06	-0.61	-0.57	-0.18	-0.19	0.00	-0.01	-0.37	-0.56	0.14	0.31	1.00	-0.07	0.19	0.36	0.13	0.14	-0.23
Commodities	Brent Oil	0.06	0.14	0.16	-0.20	0.29	0.24	0.00	0.03	0.19	0.18	0.10	-0.07	1.00	0.13	-0.14	0.32	0.37	-0.12
	Gold	-0.02	-0.40	-0.14	-0.13	-0.20	-0.18	0.08	-0.06	-0.39	0.21	0.25	0.19	0.13	1.00	0.38	0.39	0.27	-0.23
	Copper	-0.04	-0.34	-0.35	-0.18	-0.25	-0.19	-0.11	-0.27	-0.44	0.16	0.26	0.36	-0.14	0.38	1.00	0.32	0.17	-0.24
FI	US 2YR Govt Yld	-0.17	-0.01	-0.12	0.09	-0.10	0.18	-0.39	-0.30	-0.26	0.20	0.15	0.13	0.32	0.39	0.32	1.00	0.88	-0.70
	US 10YR Govt Yld	-0.17	0.14	-0.07	0.01	-0.02	0.22	-0.33	-0.32	-0.16	0.03	-0.03	0.14	0.37	0.27	0.17	0.88	1.00	-0.60
	EMBI Global Sprd	0.24	0.16	0.14	0.09	0.21	-0.30	0.23	0.40	0.35	-0.36	-0.36	-0.23	-0.12	-0.23	-0.24	-0.70	-0.60	1.00

Source: Bloomberg, Macrobond & MUFG GMR (as of 13th March 2025)

Key Takeaways:

- The correlation heatmaps show that G10 FX pairs have on the whole been weakly correlated with US rates over the past month. The only exception is USD/JPY which has been more strongly correlated to long-term US yields. It highlights that other factors have become more important in driver G10 FX performance including the recent sharp rise in yields outside of the US in Europe and Japan.
- It has been a similar story for EM FX pairs and US rates where there has been little correlation on the whole over the past month. The two main exceptions have been USD/BRL and USD/MXN which have been more tightly correlated to US rates.
- EM FX pairs have been more strongly correlated to equity market performance than G10 FX pairs over the past month. USD/KRW, USD/ZAR and USD/CLP have had the strongest correlations to emerging market equity performance. EM equities and currencies have rebounded at the start of this year encouraged by the weaker USD, lower US yields and less concern over downside risks to global growth. USD/CLP, USD/KRW and USD/ZAR have also had stronger correlations with the price of copper.
- Looking at the correlations between G10 FX pairs with each other, correlations have been weaker on average for USD/JPY, USD/CAD and USD/CHF. It reflects in part that the JPY has been driven by Japan specific factors such as expectations for BoJ rate hikes and the CAD by downside risks for Canada from the trade war with the US which have been more acute over the past month.

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