GLOBAL FX TRADER

Is This For Real?

Our thoughts on JPY, USD, EUR, AUD & NZD, CAD & NJA FX

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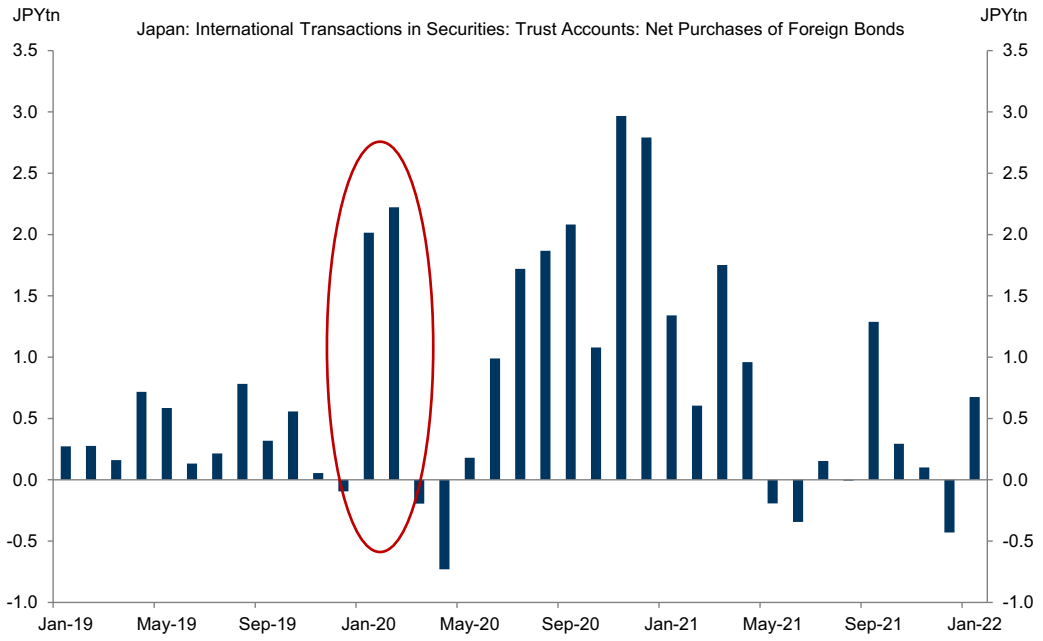
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- **JPY: This is how it would start.** The Yen rallied by about 3% over the course of a couple trading days, likely in part due to the rising probability of domestic policy shifts that could meaningfully strengthen the Yen, as well as the higher perceived risk of intervention following a possible "rate check" on September 2. Shortly after the July-August intervention, we asked "can this time be different?" as the size and scope of operations sent a powerful signal to markets. We noted that the fundamental reasons for currency weakness—i.e., expansionary fiscal policy alongside only gradual rate hikes, resilient US growth, and constructive risk sentiment—had yet to change. But we also highlighted that a faster pace of BoJ hikes or signs of rotation back towards Japanese assets could keep the Yen stronger for longer even without a shift in the global macro backdrop. Since then, Governor Ueda has essentially confirmed market pricing of a September BoJ hike. There has also been growing speculation that Japan's public pension fund (GPIF) will shift its allocation targets to favor domestic assets, following reports in mid-July of the administration's focus on encouraging such flows. While there have been no signs of rotation among typically unhedged investors in the official data, it will be worth watching over the coming months. The International Transactions in Securities (ITS) data for August, which offers investor-level detail on foreign asset flows, will be released on September 7 (7:50pm NY). It is likely too early to see much shift, but we would expect to see the flows come before any official confirmation. In 2020, the new targets that raised the allocation towards foreign bonds was officially announced at the end of March, after outsized outflows began in January and February (Exhibit 1). Taken together, the case to be tactically long JPY has strengthened (despite the risk of some pullback after a sharp move). But the clearer improvement in asymmetry over a longer horizon now makes short USD/JPY a more attractive hedge for pro-risk portfolios than it has been in a long time. For much of the past year, domestic policy has been a growing source of downward pressure on the Yen; for several years before that, the JPY-negative global macro backdrop mattered most. While the global backdrop is still a headwind for the Yen and should remain so without the emergence of growth concerns, Yen-supportive domestic policy shifts should be more impactful after being the primary source of downside. We do worry that the growing anticipation of inflows may be quickly disappointed. Of course, they may not occur as we have highlighted the less compelling investment calculus,

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but, even with a shift, it will probably be slower moving. We also acknowledge that the shift in front-end rates has now raised the bar for the BoJ to deliver a hawkish outcome this month. That said, officials have reportedly suggested some "flexibility" on the pace of hikes thereafter, and if Governor Ueda uses similar language in the press conference, that should be enough to sustain the move. More broadly, the overarching point for us is that Japanese policymakers appear to be focused on pulling the available levers to attract capital inflows, and there is plenty of capacity to conduct additional interventions to further reduce JPY short positioning along the way. That leaves us open-minded to the possibility that the right conditions could gradually align for the Yen's significant undervaluation to erode over time, because this is how it would start.

Exhibit 1: In 2020, the new targets that raised the allocation towards foreign bonds were officially announced at the end of March, after outsized outflows began in January and February



Source: Haver Analytics, Goldman Sachs Global Investment Research

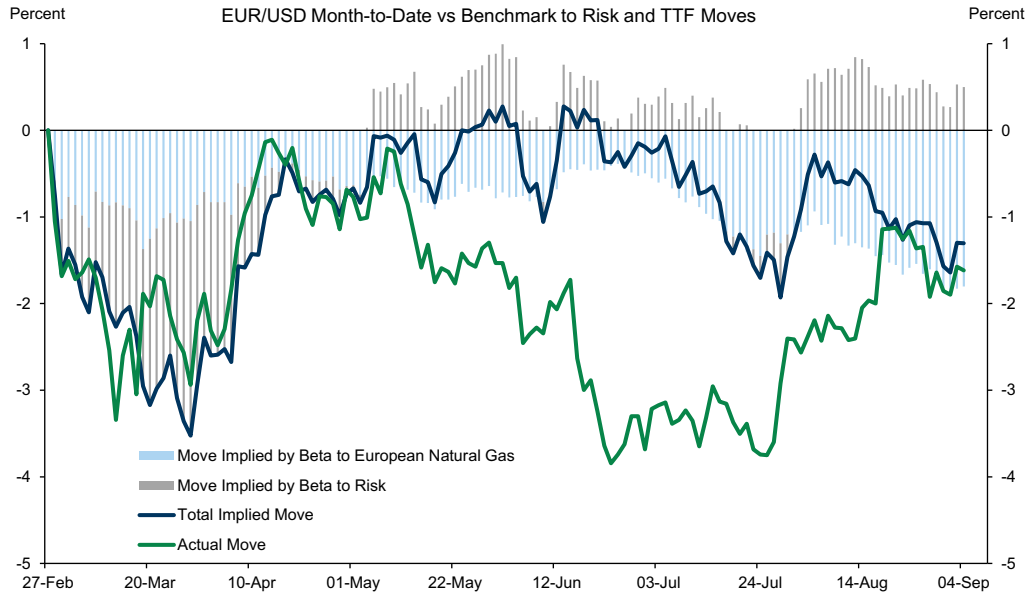
- **USD: Family fight.** The September FOMC meeting is setting up to be critical for near-term Dollar direction. Market pricing has been shifting around, and a hike is about 60% priced after a bumper payrolls print, and after Governor Waller's remarks indicating that in his assessment disinflation was finally becoming apparent, especially in underlying data. That more dovish assessment, more in line with our US economics team, pared back market expectations of a September hike after Chairman Warsh's more hawkish assessment at Jackson Hole the week before. With the strong payrolls report reconfirming a solid cyclical picture, and continued signals of robust investment spending out of the Q2 earnings results, the focus is even more narrowly centred on the near-term inflation trajectory. This loads a lot of weight on the upcoming August inflation data—more than any individual monthly inflation print should bear—and on a "good family fight" at September's FOMC meeting. If there is no clear follow-through at that meeting and market pricing needs to adjust,

we think the Dollar will remain on the backfoot, especially given potentially important domestic policy shifts that are boosting the Yen (see JPY bullet) and more persistent CNY appreciation that we discussed last week. At the same time, the Dollar remains on the right side of the energy and carry themes that we think are key to the current backdrop. These more gradual forces should still provide room for the September hike debate to dictate price action, but ultimately limit how much weaker an on-hold Fed could drive the Dollar. As has been the case most of the year, we also think this environment of supportive global risk sentiment and contained volatility supports relative value carry expressions, and this week we are adding a couple more to our trade recommendations.

- **EUR: Gas-capped, Dollar-bound.** We noted in July that the Euro had been trading with an exceptionally tight correlation to the broad Dollar, and this relationship has only tightened further since. Idiosyncratic developments in the Euro area have proved secondary to global macro, terms of trade, and US-led themes in driving EUR/USD, and we expect this to continue to be the case in the months ahead. A September ECB hike next week stands to chip away at the Euro's funding offering, but has been well-telegraphed by ECB officials, and is unlikely to generate a significant FX impulse. National idiosyncratic risks—including the French presidential election next April— appear generally contained and distant enough to leave not much imprint on the Euro, for now. And while Euro area activity data has shown striking resilience in recent months, this has mostly been the case across G10 economies, implying to us that the hurdle for clear Euro area outperformance remains high. Meanwhile, Europe remains at the centre of the lingering risks from the global energy shock, particularly with European natural gas pushing past €70/MWh this week (Exhibit 2). On the one hand, we find clear evidence that energy terms of trade pressures on FX markets have been building gradually but durably over the course of the year, which we think translates into a mounting challenge to the Euro and other energy-importing currencies. On the other hand, these pressures need to be placed in the context of the recovering European activity data and other, more positive cyclical forces, including from the continued rollout of fiscal measures, led by Germany. On net, we see moderate risks of energy-driven EUR underperformance ahead, which, in combination with limited idiosyncratic noise on the domestic front, keeps it as an attractive funder for the likes of NOK, AUD (see AUD & NZD bullet) and EM carry longs.



Exhibit 2: EUR/USD's impulse from energy and equity prices has grown more negative in recent weeks

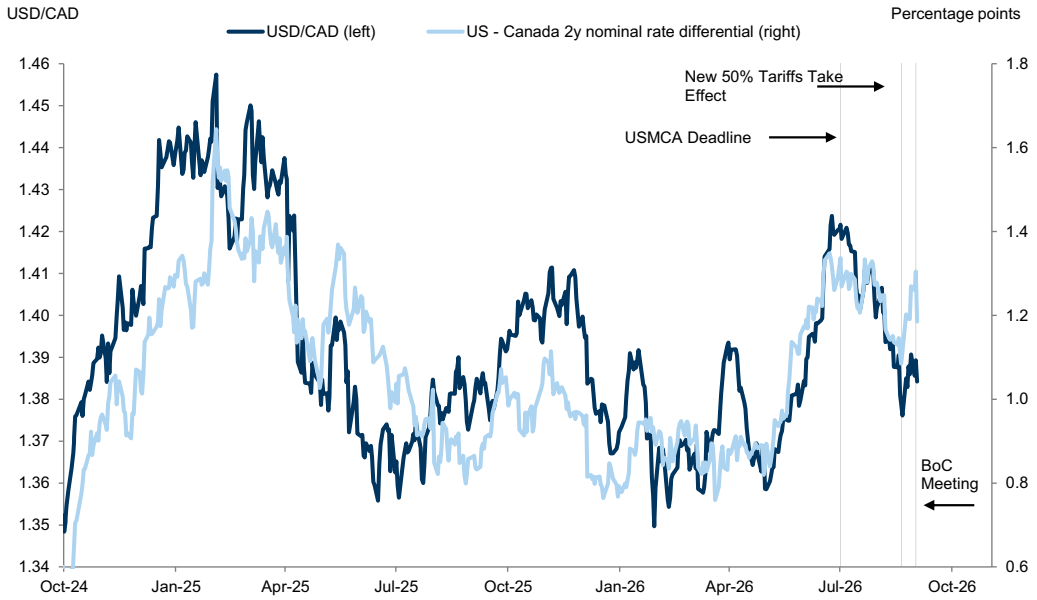


Source: Bloomberg, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

- **AUD & NZD: Going global—go short EUR/AUD.** Domestic macro drivers in Australia, including hot July inflation data and a resilient Q2 growth print have been a recent source of AUD/NZD upside pressure, joining the terms of trade and carry tailwinds, and pushing against our view for NZD to catch-up on domestic macro convergence across the Tasman sea. Our economists are now looking for an additional RBA hike later this year, whereas in New Zealand, the RBNZ's more balanced tightening bias at their September meeting came as a disappointment to elevated front-end hike pricing and prompted clear NZD underperformance. Key risks remain in both economies—including the prospects of a housing downturn in Australia, and a general election to navigate in early November in New Zealand. But after stark domestic macro divergence over the past two years, we think the case for NZD catch-up continues to hold some merit. And from a pure relative rate perspective, it remains the case that our economists' modal views imply greater downside risks to RBA hike pricing than to that of the RBNZ over the coming year. At the same time, while both NZD and AUD continue to stand to benefit from the current global macro backdrop, we acknowledge that of the two, this is particularly the case for AUD. Sturdy global growth, renewed terms of trade tailwinds on both the energy and metals front, a complicated but supportive China macro connection, notable fiscal resilience, and a strong carry offering with the highest policy rate in the G10 all stand to support the Australian Dollar, and this strong combination is also reflected positively through the lens of our FX factors approach. While we continue to see some value in downside AUD/NZD optionality from these levels of spot and skew on a domestic relative value basis, on the global front, we see scope for further AUD outperformance versus much of the G10, and we recommend going short EUR/AUD with a target of 1.5750 and a stop of 1.6520.

- **CAD: A hawkish pivot**. Ahead of the latest escalation in trade tensions, we noted that while CAD still retained some attractive funding properties including low carry to vol, the domestic backdrop had shown more encouraging signs of normalization including improvements in the employment data and a stronger Q2 GDP print making other funders—including CHF—look like more attractive alternatives in our view. That remains the case despite the tariff headlines. While elevated trade uncertainty could drive some tactical CAD weakness and should add to its funding appeal, we have been arguing that the extent of its negative impact on CAD is likely to be more contained than in early 2025, as Canadian businesses have adjusted supply chains over the past year, and are reporting an increased ability to manage the trade uncertainty. And importantly, the BoC's policy guidance and characterization of the economy at this week's September meeting were more hawkish than expected; the opening statement downplayed the downside growth risks associated with tariffs, focusing instead on potential inflationary impacts. Our economists note that this marks a stark departure from previous guidance which characterized the economic effects of the trade conflict as unambiguously dovish—and, in turn, a departure from the primary channel through which trade tensions weighed on CAD, namely wider US-Canada rate differentials (Exhibit 3).

Exhibit 3: Wider US- Canada rate differentials have been the primary channel through which trade tensions have weighed on CAD



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

- **NJA FX: Two themes and two trades—long INR/IDR and short SGD/CNH.** We have argued for two EM FX themes for the remainder of the year—first, a continued supportive backdrop for relative value positive carry views and second, a gradual but sustained strengthening in CNY. We are recommending two cross-Asian FX trades that express these themes and our preference for currencies with supportive policy backstops and improving balance of payments dynamics. First, we recommend going long INR/IDR (target 200, stop-loss 178). As highlighted in our recent EM Asia

FX/Rates Views, we expect the INR to outperform other high-yield Asian currencies, supported by the RBI's successful efforts to stabilize the currency, particularly through the FCNR(B) scheme, which has attracted USD 128bn of inflows, well above prior expectations. The RBI's decision to close the scheme early likely reflects greater confidence in India's balance of payments amid improving FDI, renewed equity inflows, and stabilizing bond flows. While higher oil prices may continue to weigh on the current account, we expect healthier capital flow dynamics and the RBI's broad policy toolkit, including the potential to raise rates if necessary, to keep the Rupee rangebound. In contrast, we remain cautious on the IDR. Although Bank Indonesia (BI) has aggressively tightened policy and used elevated SRBI yields to support the currency, recent declines in SRBI cut-off yields suggest a greater willingness to prioritize broader macroeconomic objectives over FX stability. If BI becomes increasingly reluctant to maintain high yields to attract inflows while global core rates remain elevated, narrowing rate differentials could leave the IDR more vulnerable. Second, we recommend going short SGD/CNH (target 5.00, stop-loss 5.50). We expect a gradual CNY appreciation of around 3-5% per year against the USD, supported by China's large and growing trade surplus, meaningful currency undervaluation, and policy objectives related to RMB internationalization. A stronger CNY would help alleviate external trade tensions while remaining consistent with export competitiveness given the substantial depreciation in China's real effective exchange rate post-pandemic. We also believe a gradually appreciating and low-volatility currency better supports Beijing's long-term goal of increasing international use of the RMB. Meanwhile, the MAS appears to be nearing the end of its tightening cycle following a modest 25bp steepening of the SGD NEER slope, and with the SGD already trading above the midpoint of its policy band, we expect only gradual appreciation rather than significant outperformance.

Global FX Forecasts

	Current Spot	3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Forward	Forecast	Forward	Forecast	Forward	Forecast
G10							
EUR/$	1.16	1.17	1.14	1.17	1.12	1.18	1.12
£/$	1.35	1.35	1.33	1.35	1.29	1.35	1.28
AUD/$	0.72	0.72	0.72	0.72	0.73	0.72	0.74
NZD/$	0.59	0.59	0.60	0.59	0.61	0.59	0.62
$/CAD	1.38	1.37	1.40	1.37	1.38	1.36	1.38
$/CHF	0.81	0.80	0.81	0.79	0.82	0.77	0.82
$/NOK	9.29	9.31	9.56	9.32	9.55	9.33	9.38
$/SEK	9.54	9.49	9.65	9.45	9.73	9.36	9.55
$/JPY	156	155	162	154	163	152	165
EMEA							
$/CZK	20.8	20.8	21.5	20.7	21.8	20.7	21.6
$/HUF	311	312	311	313	313	314	308
$/PLN	3.72	3.72	3.77	3.72	3.79	3.72	3.79
$/RON	4.52	4.54	4.52	4.56	4.63	4.61	4.69
$/RUB	88.97	88.97	80.0	91.62	85.0	96.81	90.0
$/UAH	44.6	45.9	46.0	47.2	48.0	49.6	52.0
$/TRY	48.35	52.06	51.0	55.88	53.0	64.95	59.0
$/ILS	3.01	2.99	3.00	2.98	3.05	2.95	3.10
$/EGP	50.9	52.9	49.0	54.9	48.0	58.9	46.0
$/ZAR	15.99	16.10	16.50	16.21	16.00	16.44	15.75
$/NGN	1323	1363	1325	1402	1300	1480	1250
Americas							
$/ARS	1508	1585	1500	1673	1600	1861	1800
$/BRL	5.11	5.21	5.20	5.30	5.10	5.50	5.00
$/MXN	16.92	17.05	16.75	17.17	17.00	17.42	17.25
$/CLP	931	930	920	929	900	928	860
$/PEN	3.36	3.37	3.40	3.38	3.35	3.40	3.30
$/COP	3142	3204	3350	3268	3300	3404	3200
Asia							
$/CNY	6.72	6.65	6.70	6.60	6.60	6.51	6.40
$/HKD	7.84	7.82	7.80	7.80	7.80	7.77	7.80
$/INR	94.49	95.23	96.00	96.00	97.00	97.48	97.00
$/KRW	1357	1355	1390	1352	1370	1347	1350
$/MYR	4.04	4.03	4.00	4.02	3.95	3.99	3.90
$/SGD	1.27	1.26	1.26	1.25	1.25	1.23	1.24
$/TWD	31.8	31.6	31.5	31.5	31.3	31.4	31.0
$/THB	33.00	32.82	33.50	32.63	33.00	32.25	33.00
$/IDR	17660	17733	18200	17847	18300	18054	18500
$/PHP	62.52	62.69	62.00	62.84	61.00	63.17	61.00
Euro Crosses							
EUR/GBP	0.86	0.86	0.86	0.87	0.87	0.87	0.88
EUR/CHF	0.94	0.93	0.92	0.93	0.92	0.91	0.92
EUR/NOK	10.81	10.86	10.90	10.90	10.70	10.99	10.50
EUR/SEK	11.09	11.07	11.00	11.06	10.90	11.04	10.70
EUR/CZK	24.17	24.24	24.50	24.28	24.40	24.41	24.20
EUR/HUF	362	364	355	366	350	370	345
EUR/PLN	4.32	4.34	4.30	4.35	4.25	4.38	4.25
EUR/RON	5.25	5.30	5.15	5.34	5.18	5.43	5.25
EUR/RUB	103.4	103.8	91.2	107.3	95.2	114.1	100.8

Note: Spot values are as of Wednesday's close.

See dynamic table here (or click image above): https://publishing.gs.com/content/themes/fx-forecasts.html

Source: Goldman Sachs Global Investment Research

Return Forecasts & Valuations

	Current Spot	Forecast: 12-Month Return (%)				GSDEER			GSFEER			Average Estimate	PPP*
							Misalignment			Misalignment			
		Spot	Carry	Total	NEER	Estimate	Bilateral	Trade-Weighted	Estimate	Bilateral	Trade-Weighted		
G10													
EUR/$	1.16	-3.7	-1.4	-5.0	-2.6	1.18	-2%	9%	1.15	1%	0%	1.17	1.52
GBP/$	1.35	-5.4	0.1	-5.3	-3.6	1.18	15%	26%	1.26	8%	8%	1.21	1.50
AUD/$	0.72	2.8	0.6	3.4	1.8	0.77	-7%	14%	0.68	6%	10%	0.74	0.70
NZD/$	0.59	5.4	-0.8	4.5	4.4	0.65	-10%	4%	0.60	-2%	1%	0.63	0.67
$/CAD	1.38	0.0	-1.5	-1.5	0.1	1.25	-9%	-6%	1.36	-1%	-1%	1.30	1.17
$/CHF	0.81	-1.7	-4.1	-5.7	0.5	0.86	7%	13%	0.818	1%	2%	0.84	0.92
$/NOK	9.29	-0.9	0.4	-0.5	1.3	6.63	-29%	-23%	8.90	-4%	-7%	7.54	8.87
$/SEK	9.54	-0.1	-1.8	-2.0	2.4	7.36	-23%	-16%	9.28	-3%	-2%	8.13	8.26
$/JPY	155.8	-5.6	-2.7	-8.1	-6.7	98	-37%	-29%	132	-15%	-13%	112	93
EMEA													
$/CZK	20.79	-3.8	-0.4	-4.1	-1.2	25.7	24%	29%	21.8	5%	3%	24.14	15.82
$/HUF	311	1.0	0.9	2.0	4.1	334	7%	12%	346	11%	9%	339	261
$/PLN	3.72	-2.1	0.0	-2.0	0.6	4.11	10%	17%	3.81	3%	2%	3.99	2.43
$/RON	4.52	-3.6	2.0	-1.7	--	--	--	--	5.28	17%	13%	--	--
$/RUB	89.0	-1.1	8.8	7.6	0.4	80.19	-10%	2%	76.70	-14%	-6%	78.79	40.15
$/UAH	44.62	-14.2	11.2	-3.0	--	--	--	--	--	--	--	--	--
$/TRY	48.35	-18.0	34.3	10.1	-16.5	34.74	-28%	-25%	49.96	3%	4%	40.82	29.15
$/ILS	3.01	-3.1	-1.7	-4.8	-1.1	3.77	26%	37%	3.13	4%	5%	3.52	4.70
$/EGP	50.93	10.7	15.6	26.3	--	--		--	--	--	--	--	--
$/ZAR	15.99	1.6	2.8	4.4	2.2	13.19	-18%	-10%	17	5%	4%	14.61	18.40
$/NGN	1323	5.8	11.9	17.7	--	--	--	--	--	--	--	--	--
Americas													
$/ARS	1508	-16.2	23.4	7.2	-16.9	--	--	--	--	--	--	--	--
$/BRL	5.11	2.2	7.6	10.0	2.4	4.39	-14%	-2%	5.23	2%	5%	4.72	5.28
$/MXN	16.92	-1.9	2.9	1.0	-2.2	20.20	19%	27%	17.58	4%	4%	19.15	20.29
$/CLP	931	8.3	-0.3	7.9	7.9	693	-26%	-14%	861	-8%	-2%	760	787
$/PEN	3.36	1.8	1.2	3.0	1.7	2.86	-15%	-5%	2.99	-11%	-10%	2.91	4.24
$/COP	3142	-1.8	8.3	6.4	-1.8	3714	18%	32%	3821	22%	20%	3757	3298
Asia													
$/CNY	6.72	5.0	-3.2	1.6	5.8	5.08	-24%	-17%	6.06	-10%	-7%	5.47	5.82
$/HKD	7.84	0.5	-0.9	-0.4	-1.7	7.04	-10%	10%	6.80	-13%	-7%	6.94	5.85
$/INR	94	-2.6	3.2	0.5	-2.5	87.84	-7%	1%	89.57	-5%	-6%	88.53	57.50
$/KRW	1357	0.5	-0.7	-0.2	-0.2	1122	-17%	-2%	1130	-17%	-18%	1125	929
$/MYR	4.04	3.6	-1.2	2.4	3.1	3.28	-19%	-4%	4.09	1%	4%	3.60	1.95
$/SGD	1.27	2.2	-2.6	-0.4	1.6	1.36	7%	24%	1.33	5%	8%	1.34	0.57
$/TWD	31.8	2.5	-1.0	1.4	1.8	24.82	-22%	-5%	24.67	-22%	-21%	24.76	13.21
$/THB	33.00	0.0	-2.2	-2.3	-0.2	32.91	0%	20%	34.71	5%	9%	33.63	18.82
$/IDR	17660	-4.5	2.2	-2.4	-5.3	14409	-18%	-3%	16511	-7%	-4%	15250	10885
$/PHP	62.52	2.5	1.0	3.6	2.2	61.06	-2%	17%	64.07	2%	13%	62.27	52.56
Euro Crosses													
EUR/GBP	0.86	-1.8	1.4	-0.3	-3.6	1.00	16%	26%	0.92	6%	8%	0.97	1.01
EUR/CHF	0.94	2.0	-2.8	-0.7	0.5	1.02	8%	13%	0.94	0%	2%	0.99	1.40
EUR/NOK	10.81	2.9	1.7	4.6	1.3	7.83	-28%	-23%	10.23	-5%	-7%	8.79	13.46
EUR/SEK	11.09	3.7	-0.5	3.2	2.4	8.69	-22%	-16%	10.67	-4%	-2%	9.48	12.54
EUR/CZK	24.17	-0.1	1.0	0.9	-1.2	30.37	26%	29%	25.07	4%	3%	28.25	24.02
EUR/HUF	362	4.9	2.3	7.2	4.1	394	9%	12%	398	10%	9%	396	396
EUR/PLN	4.32	1.7	1.4	3.1	0.6	4.85	12%	17%	4.39	2%	2%	4.67	3.68
EUR/RON	5.25	0.1	3.3	3.4	--	--	--	--	6.07	16%	13%	--	--
EUR/RUB	103.4	2.6	10.2	12.8	0.4	94.74	-8%	2%	88.2	-15%	-6%	92.1	--
Addendum													
USD	--	0.6	-1.6	-0.7	0.4	--	--	12%	--	--	3%	--	--

Note: USD returns average of all other currencies (except ARS, NGN and UAH) with opposite sign; *EM estimates adjusted for per capita income. Spot values as of Thursday.

See dynamic table here (or click image above): https://publishing.gs.com/content/themes/table.html?criteriaKey=1k2HGqqS2h

Source: Goldman Sachs Global Investment Research