FX and Economic Insights

Global Markets Research
22 September 2026

Foreign Exchange - Global

US trip notes

Euro area resilience, UK fiscal challenges and JPY outlook in focus.

- We present a summary of discussions from our recent client trip to the US, where topics ranged from euro area growth resilience, UK fiscal risks, JPY flows and sentiment, interest rate pricing versus forecasts and structural risks for USD.
- On the economics side, we see growth around trend, with downside risks from energy prices; we think the UK is more susceptible to fiscal slippage but that this incentivises sticking to current rules; the gap between rates markets and economists is likely due to the former's ability to react faster and optimism among the latter for a peace deal.
- For FX, we remain bearish GBP via a short GBP/AUD trade, we are looking at local investor flows for a true change in direction in JPY, and discussed why we still see medium-term risks as skewed towards a softer USD.

We spent 15-18 September meeting with clients on the US East Coast to discuss our latest European macroeconomic and G10 FX views. Below, we summarise the key questions posed to us and the discussions we had.

(1) Why is Europe's economy so resilient?

One of the most consistent questions that came up early in our meetings was around the relative resilience of Europe. **Many investors questioned how growth had stayed positive,** despite the negative supply-side shock of higher oil and gas prices, the "China 2.0 shock" regarding manufacturing competition and higher interest rates. The bounce in euro area data surprises since bottoming in May 2026 was noted by some investors.

From an economics perspective, we flagged that **growth has only really been around "trend"** rather than strong in an absolute sense, and that surveys were still suggesting a challenging environment, albeit one that is a bit less negative than had been expected. Indeed, it is quite something to say that GDP has remained "resilient" when the economist consensus for the euro area is looking for GDP growth of just 0.9% y-o-y in 2026.

We also flagged the **net positive fiscal impulse** in the region (albeit an uneven one, with Germany doing the heavy lifting), the **increased diversification of energy supply** from fossil fuels and **less sensitivity to interest rates due** to the longer-term trend of private sector deleveraging as reasons for the regions surprising performance.

For FX, we have been expecting the relatively positive data momentum to support EUR more than it has. While *portfolio flows were strong in June* and July (after turning negative in April and May), there has seemingly been little positive impact on EUR. Ultimately, we think this economic resilience and ability to deliver further rate hikes will support EUR.

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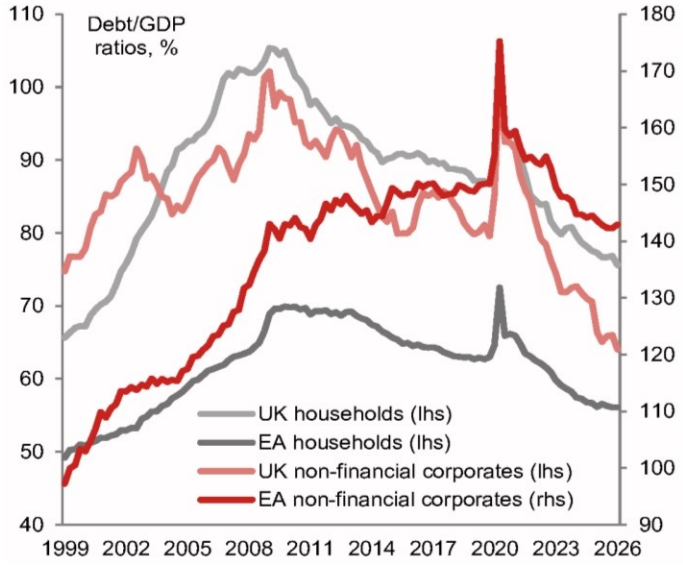
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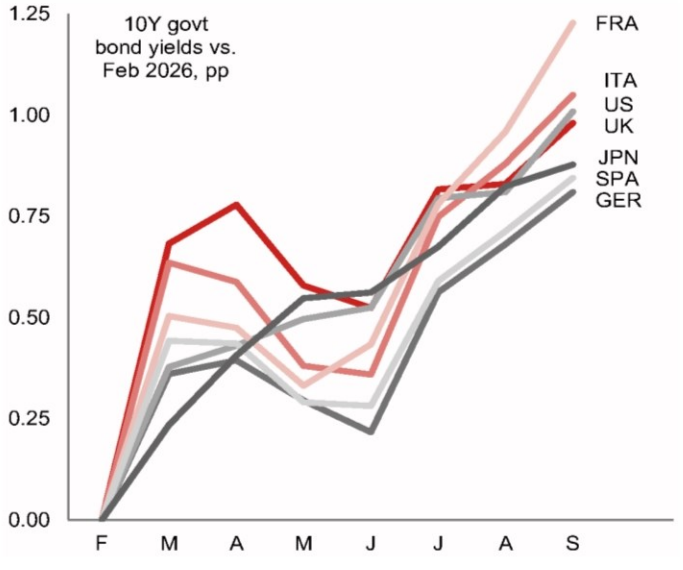
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Fig. 1: Private deleveraging could lower rate responsiveness



Source: ONS, Eurostat, Haver, Nomura

Fig. 2: Yields have risen more where fiscal risks are greater



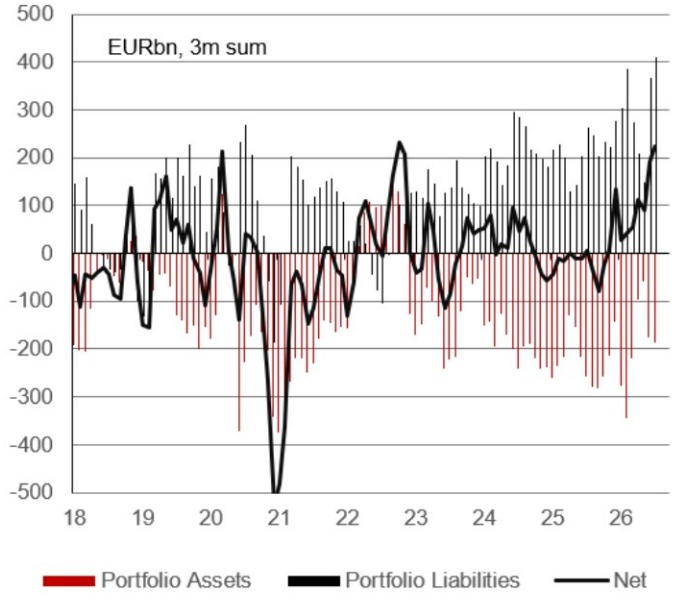
Source: Bloomberg, Nomura

Discussions of regional politics were limited, although some clients asked about the German state elections as a source of risk. There was a little more focus on French elections in 2027, especially the risk of a Le Pen versus Melenchon run-off vote (a prospect that has been rising in likelihood as Melenchon's support has increased recently). That said, **most investors agreed that it might be too early to express views around this, or questioned whether FX was even the right channel to do so,** with rates and spreads likely a better reflection of idiosyncratic country-level risk.

(2) What can the UK government do on fiscal policy, and are negative tails not already priced in to GBP?

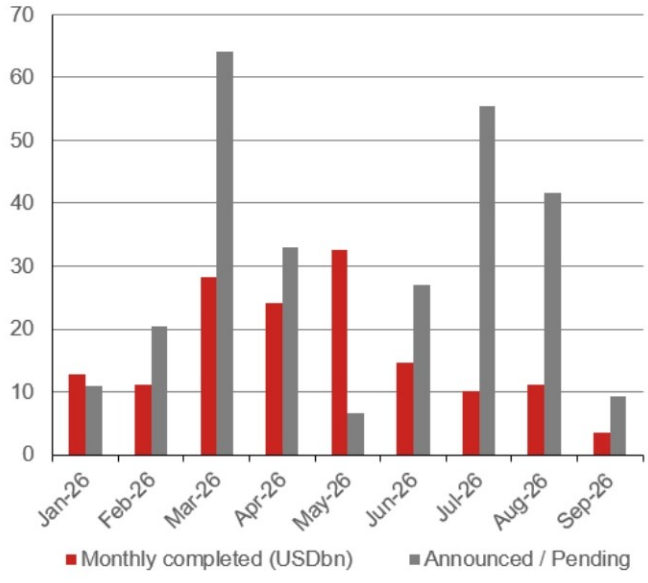
There was a lot of debate about UK fiscal dynamics, ahead of major speeches from PM Andy Burnham and Chancellor John Healey in late September, and the budget on 28 October. Both men have, in broad terms, promised to stick to the fiscal rules laid out by their predecessors, and with strict discipline likely to be imposed by financial markets, fiscal policy in the upcoming budget at the end of next month is unlikely to be more expansionary. Rather, **a tightening is needed to offset the impact on fiscal headroom from the latest energy shock,** which has raised both inflation and interest rates. Having ruled out raising income taxes, VAT or national insurance in the 2024 manifesto, the scale of any tax increases needed on smaller tax bases (e.g., capital gains, inheritance, wealth) would potentially have more significant behavioural effects on those affected by such tax changes.

Fig. 3: EUR portfolio flows in June and July do not suggest investors are concerned about the region



Source: Bloomberg, Nomura

Fig. 4: UK M&A inflows may risk undershooting what has currently been planned



Source: Bloomberg, Nomura

We think markets would be more responsive to UK fiscal slippage than would be the case in other countries where the fiscal metrics are even more challenging (e.g., France or the US), because the UK does not have the backstop of the ECB's TPI/OMT schemes, nor is it a major reserve currency. While this is a constraint that should curb any government impulse to loosen, we are also slightly wary that there could be workarounds within the current rules that could be deemed inappropriate by markets, such as a significant increase in issuance and lending by Public Financial Institutions (a.k.a. PuFIns).

There appeared broad agreement with our view that **GBP faces greater downside risks than most G10 currencies, both in terms of potential disappointment on rates and fiscal tail risks.** One client did push back quite firmly, however, with the view that a lot of this negativity was priced in and so the "pain trade" would be a stronger pound. We are not convinced of this thinking, based on GBP's resilience in recent months, its strength relative to cyclical factors such as rates spreads, and the lack of fiscal risk implied in other assets such as gilts-swap spreads. We also made the point that GBP strength is relying on *unprecdented strength in proposed M&A inflows*, which may not materialise in as much size as is currently projected.

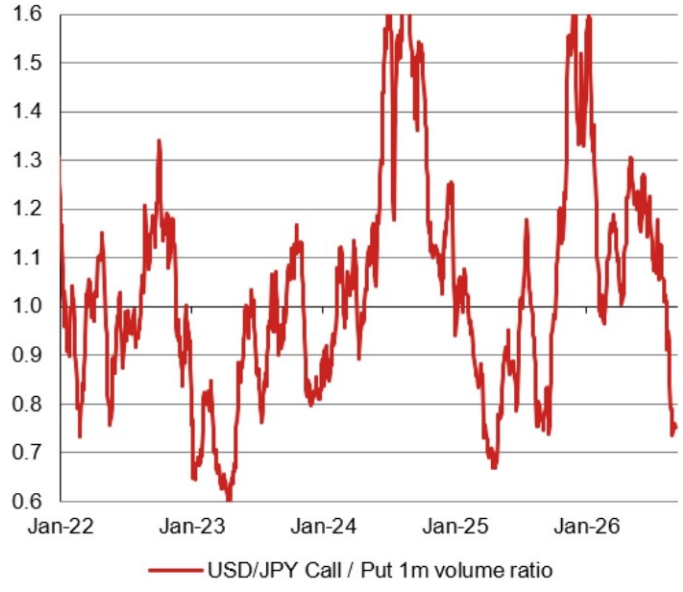
We maintain a short GBP/AUD view, which should capitalise on a both cyclical and structural themes but remains carry positive. Our view on AUD was largely echoed by investors, with the RBA looking likely to hike in September with a somewhat hawkish message, structural support from commodity prices and signs that positioning is much less extreme than earlier in the year.

(3) What caused the recent shift in JPY sentiment and price action, and how has positioning shifted?

One of the main discussion points on FX was around JPY and specifically the fall in USD/JPY that occurred in early September, without any sign of intervention from either the MOF or the US Treasury. Many clients struggled to find a suitable explanation for this, with ideas such as more hawkish BOJ expectations or reports of a change in GPIF investment allocations seemingly unlikely to have driven much of the move. We flagged *ch anges in CTA positioning*, flipping from net long USD/JPY to net short as part of the story, although we agree that this was not the catalyst that sparked the move. Our suspicion is that the initial catalyst was simply a large, one-off flow in an environment where a lot of USD/JPY demand had been satiated during the prior round of FX intervention.

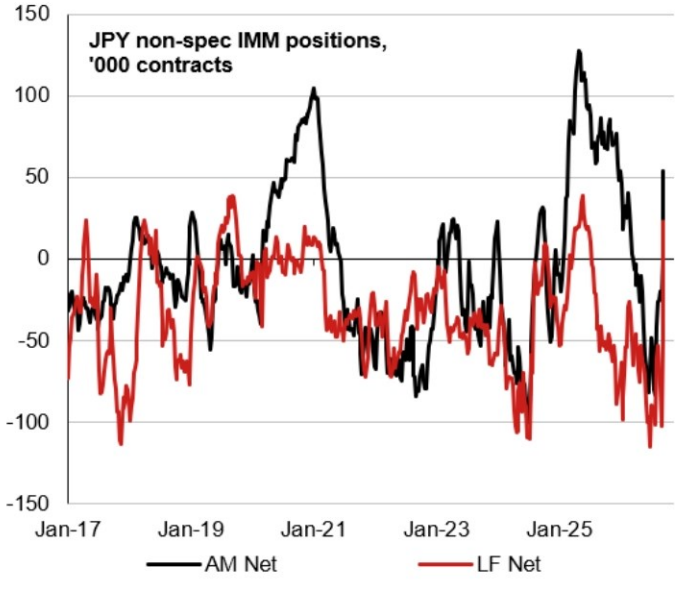


Fig. 5: Options market data showed a heavy swing to USD/JPY puts in early September



Source: Bloomberg, Nomura

Fig. 6: COT data on currency futures have also seen a big swing back to long JPY positions



Source: Bloomberg, Nomura

More broadly, **views around JPY were more mixed than the last time we visited the US**, when the consensus was quite bearish. The recent months of intervention by both the MOF and US Treasury, the BOJ's acceleration of its rate hiking cycle and signs that domestic investors may be slowly rethinking their asset allocations have created much more two-way risk for USD/JPY. That said, **conviction was low,** and investors received our points that the fastest moving positioning data – such as options call/put volumes – had already materially shifted towards a more positive view of JPY. This was before the latest COT data showed that leveraged funds and asset managers have both shifted to long futures positions for the first time since July 2025. For USD/JPY to fall more persistently, **some noted that the front-end carry differential would need to narrow much more materially or there would need to be a clear shift to increasing domestic asset allocations** among local institutional investors.

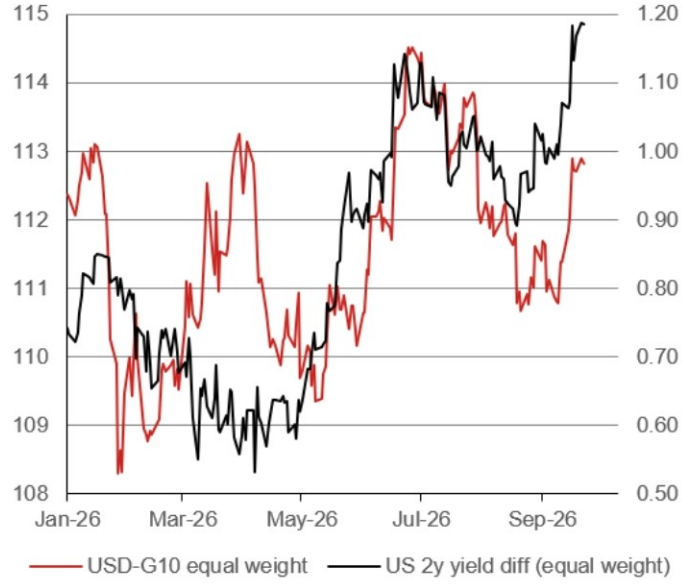
(4) US outlook and USD: Before the FOMC meeting, sentiment was to fade USD rallies, but this may be changing

Just over half of our meetings took place before the Fed's 16 September rate hike. The predominant sentiment at these meetings was that **investors were looking to sell USD on rallies as opposed to buy dips.** Part of this reflected views around potential one-offs, such as JPY intervention, but there was also generally some agreement that negative policy tail risks for USD were more present than positive ones. Indeed, **one investor thought the US administration was actively engineering USD weakness.**

In the post-Fed environment, clearly one of these tails (namely perceived Fed independence risk) has been curtailed. Investors largely agreed with our view that, in a world where the competition for global capital was intensifying, the US fiscal outlook could remain a challenge for USD. If the AI trade were to stumble on concerns over either regulation or implied future returns, it was seen as a notable risk for USD from both growth and flow perspectives. There was little conviction that Middle East conflicts would end soon, but if this were to happen ahead of the midterms, most investors would view this as a path to modest USD weakness. Many investors thought there were good opportunities in idiosyncratic stories and carry positions (North Asia, HUF and some Latam currencies were highlighted to us, for example).

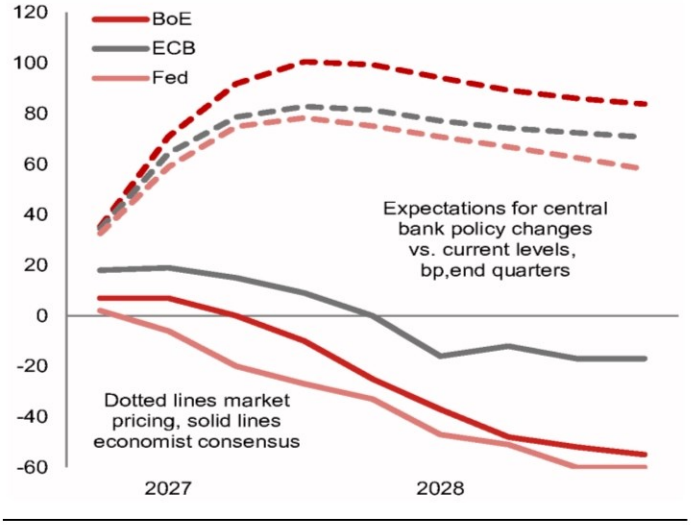
From a tactical standpoint, we believe there is scope for USD upside for now as Fed hiking expectations could remain firm in the months ahead. Our preferred expression of this is *long USD/CAD* where we see the clearest macro and rate divergences.

Fig. 7: Post-Fed repricing of front-end rates is USD bullish



Source: Bloomberg, Nomura

Fig. 8: Divergence between markets and economist views



Source: Bloomberg, Nomura

(5) Why are markets pricing in such different policy outcomes than economists?

One point that received particular attention was the fact that financial markets are pricing in substantial rate hikes from a number of central banks, not only the ECB but particularly the Bank of England. That differs materially from the economist consensus (including ourselves), where forecasts envisage either much more modest hikes (ECB) or unchanged rates than cuts next year (BoE).

Fig. 8 shows the divergence clearly. While rate markets have been – since March – reacting instantaneously to movements in energy prices, economists have been less willing to shift views so quickly, we suspect in the hope that a peace deal could prompt a decline in energy prices (such as what occurred following the Islamabad Memorandum in mid-June). It may be the case that the higher energy prices remain and the closer we are to the US midterm elections, the greater the risk that another MOU is agreed upon, as the Trump administration feels the pressure to bring oil prices down. Economists may therefore be holding off until that point. This sort of thought process can also be seen in comments from the BoE Monetary Policy Committee – with most members opting to hold rates for now, but conscious that the longer high energy prices persist, the greater the risk that policy tightening will be needed.

Appendix A-1

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