Mizuho EMEA

G4 Rates & FX Monthly

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MIZUHO

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USD

The Background

It's hard to be pessimistic on US growth when you have the combination of fiscal and monetary policy levers being pulled at the same time to stimulate the economy. AI Capex is a concern (given it contributed a lot to the latest quarterly GDP growth) but financial conditions are loose and there are signs the US could witness a rebound of the consumer with tax cuts. But rising unemployment (especially for the youth) causes concern that will allow doves to hold the room.

Our US Econ expect no more Fed cuts this year, with the risk of a hike in 2027. Fed leadership is in focus—Cook's tenure (Supreme Court hearing in Jan) and new Fed chair decision (May-26) key for policy tone. We expect the politics will lead to a market still trying to price a sub-3% terminal rate when the Labour market weakens. But data rebound we expect in the short term would argue higher rates first.

The View

FX: We expect the a short term bounce in the USD if US data rebounds in January. But weaker in 2026 thanks to German fiscal spending and the new Fed Chair in May 2026 combined with the USD debasement trade too. **DXY to 95 by end-26.**

Rates: Geopolitical headlines and the better-than-expected macro data has triggered a bearish repricing across the curve that we expect will bring dip-buyers in the near term. But later on, with data showing lower risk of labour market deterioration, the balance of risks suggests higher UST yields ahead. We expect **10Y UST yields to rise towards 4.50% in 2026** as inflation overshoots persist and the Fed continues cutting into a resilient economy. **Steepening is likely** as the front end stays anchored amid (lower but still present) labour market risks, making the long end more reactive to stronger data. Geopolitics is triggering a UST unwind trade that is also **putting the USD swap spread widening to the test**, but ultimately we think the 2–5Y sector will remain supported.

EUR Rates

The Background

Growth has been more solid than we anticipated, in the PMIs at least. The risks look to be balanced with tariff uncertainty and PMIs coming off the highs vs faster rollout of fiscal stimulus in Germany. Inflation is likely to fall below 2% in coming months with lower oil prices and natural gas helping but the ECB expect that and won't be shaken by it. Labour markets in Germany and France are slowing with wage growth set to decline in a fashion that may have some doves concerned. We argue the downside risks are bigger in Q1 but the ECB are more than happy to declare mission success in achieving 2% inflation and so rates will be on hold in 2026. It's slightly **too early to be talking about hikes in 2026 but that could be a 2027 story**.

The divergence in outlook between the big 4 is stark, German and French unemployment is rising but Spanish and Italian falling. Meanwhile French politicians continue to keep markets guessing on the budget deficit, rating agencies downgrading OATs and in our view the uncertainty will carry through to 2027's Presidential elections.

The View

Germany's borrowing needs are projected to rise from €143bn in 2025 to €180bn in 2026. In issuance terms, this means an envelope of €337bn Bund issuance. We expect this to keep the bearish pressure on Bund yields. **We are looking for 10yr Bunds to test move towards 3.00% in coming months**, while the front end remains anchored by the possibility of a final ECB rate cut. We think curve steepening will continue due to 1) the Dutch pension reform flow, 2) Germany's fiscal expansion and potential growth rebound, and 3) markets demanding a higher term premia as rate hikes become a distant but plausible scenario from March 2026 onward.

EGB spreads are likely to continue converging on the back of the German story. French OATs may face political headwinds (fair value: 75–90bp vs 10yr Bunds), while Italian BTPs look rich but ongoing fiscal consolidation makes it hard to see a big widening from here (75–85bp). Spain stands out with strong growth and fiscal discipline (45–60bp). Germany, meanwhile, faces increased issuance and a worsening fiscal balance.

Swap spreads have been stable, but issuance may **lead Bunds to underperform swaps**, except in the long end, where Dutch pension reform could help anchor current spread levels.

EUR FX

We expect any EUR gains from here to be gradual and tied to the Global growth story. Short term we expect the USD to stage a rebound on better than expected data (signs of new orders picking up, claims falling, US fiscal impact taking shape) and are looking for a move towards 1.14. But it's hard to be too bullish on the USD beyond that if Europe's fiscal stimulus starts to kick in.

EUR/USD at 1.22 (Dec-26). Fed cuts, German fiscal spending and higher levels of USD FX hedging will lead to a 2017 analogue playing out in 2025/26 but it's hard to go further than that. **Risks ahead:** Risks are to the downside if the US re-accelerates, the new Fed chair doesn't deliver the dovish impulse the White House would like and if German fiscal spending struggles to offset manufacturing's slowdown (German IP in recessionary territory).

GBP

The BoE is torn between 4 hawks looking at high spot inflation and 5 core/doves open to a more forward-looking stance, weighing weak labour data and mild PMIs against still-high spot inflation. With unemployment rising, wages slowing, and PAYE data showing job losses for several consecutive months, labour market slack is clearly building. CPI avoided the painful 4% level and has fallen sharply since. The good news is that is likely to continue in our view.

Taking into account the budget's 0.3-0.5% lower CPI effect, **the BoE could deliver another 5-4 vote for a cut in February, April and July**, taking Bank Rate toward the mid-point of neutral at 3% (range is 2.25–3.75%).

FX: With the USD on the back foot and global growth momentum improving, GBP is positioned to outperform but a dovish BoE outlook holds it back vs EUR and JPY. We expect EUR/GBP to drift toward 0.92 by Dec-26, while **GBP/USD holds around 1.31 to 1.33 through 2025–26**.

Rates: We see **10Y Gilts breaking the lower end of their 4.35–4.85% range** that has held for most of last year. Term premia is still too elevated, which together with a dovish BoE continue to make Gilts an attractive buy on dips. **Steepening should gain traction as cuts materialize**, with the 10s30s segment flattening thanks to the decrease in long-term issuance and decreased fiscal worries. **Swap spreads to remain supported** as the Chancellor has avoided a worst-case scenario in the Autumn Budget.

JPY

Japan's recovery remains intact with PMIs above trend, and tourism booming, while a weak JPY continues to support exporters. The BoJ's outlook hinges on upcoming US data, surveys to gauge tariff impacts and the domestic politics/FX. Inflation has cooled from 4.0% to 2.9**%**, aided by subsidies and softer rice prices. The recent budget will lower inflation even more but will be stimulative too. The labour market remains historically tight, with conditions comparable only to the 1980s bubble era, and another strong wage round in 2026 could reinforce BoJ confidence to normalize policy. **Expect a hike in July, Dec and the potential for more (2% terminal in 2027/28?).**

FX: Fed cuts and BoJ hikes—a rare combination—set the stage for sustained JPY strength. But political uncertainty, FX hedging and a dovish BoJ has led to recent JPY weakness. Higher domestic yields and increased FX hedging flows should push USD/JPY lower toward **147 (Dec-26)**. If rate differentials fully dictated FX, USD/JPY would already be much lower (125) but correlations have weakened and it's hard to have a strong view on the pair as a result.

Rates: **Bearish pressure should persist in JGBs (10yr to 2.5-3.0%)** as resilient eco backdrop and fiscal stimulus drive repricing. We expect the **steepening to continue**, with the super long end more shielded. Swap spreads to remain around current levels in the near term before support of ALM demand resumes.

XCCY

2025 was a year of relentless tightening. A cheaper dollar premium, reverse GBP and reverse samurai issuance, as well as ongoing demand of JGB ASWs (even in the long end!), were all drivers of the tightening.

For EURUSD, **2025 has been a stellar year for reverse Yankees**, which helped the better receiving momentum together with the relative move in swap spreads (USD swap spreads out-tightening EUR swap spreads).

We expect the **dollar premium to remain subdued**, thanks to ample USD liquidity, Fed bill purchases and US deregulation. This should **cement the "Sterling premium"** that is now priced in the market, with the long-end normalisation story now looking more appealing thanks to the more benign Gilt story. The cheaper dollar premium, coupled with ongoing demand of JGB ASWs from overseas and reverse samurai attractiveness should also support a **tightening in USDJPY XCCY over the medium-term, even though we expect some breather in the near term**. For EURUSD XCCY, dynamics are slightly different. We expect a steepening of the curve on the back of swap spread developments and EUR issuance putting a cap to how much belly spreads can tighten.

The view in full

EUR Policy

- **Growth:** Euro area growth has held up better than feared thanks to defence spending, loose financial conditions and the expectation of German fiscal spending ahead. Tariffs have had less of an immediate effect on business confidence than we expected but the renewed uncertainty over Greenland won't help. PMIs had been storming higher but recently rolled over.
- **Inflation:** The ECB has achieved their 2% goal. There aren't many strong signals from the leading indicators for what lies ahead, commodities are grinding lower suggesting big declines in goods inflation but services are holding up. Sluggish wage growth suggests continued disinflation in services but the ECB already forecasts a near term dip in CPI below 2%.
- **Labour:** Unemployment at 6.3% near record lows, but the divergence among the big four is stark, Italy's and Spain unemployment is falling at the lows but Germany's rising and France too. ECB wage tracking has severely slowed down.
- **Politics:** German spending welcomed, France spending constrained by bond market woes. EU defence spending looks to be accelerating, but the Draghi reform plan is slow to be rolled out. France probably needs an election to break the deadlock, but a muddle through looks to be the market's base case, polls remain divided and a clear winner is hard to see.
- **Policy:** The ECB is unlikely to be forced into another cut if inflation remains well behaved. But it's hard for the market not to toy with the risk of a cut with inflation set to fall below 2% in the near term. German surveys continue to surprise to the upside making it more likely we think about rate hikes in 2027 onwards.

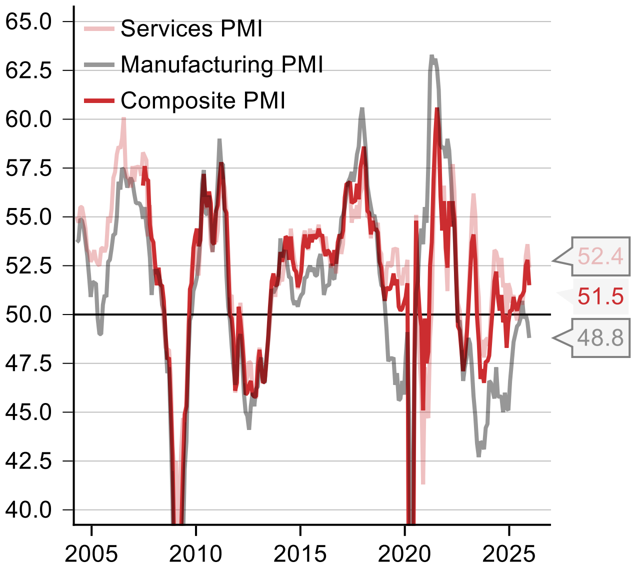
EUR Rates

- **Duration:** We think that the German fiscal story is still not fully priced in. Defence spending will increasingly come from the core budget and a broader debt-brake reform is on the agenda. This will add to the already rising borrowing needs (€337bn Bund issuance in 2026, +€54bn vs 2025). Together with the growth impulse this fiscal stimulus should create as labour bottlenecks are easing, we see 10yr Bund yields moving back towards the YTD highs of 2.95-3.00%, if not beyond. The bearish pressure should be felt across the curve, with the front end better shielded as the prospect of hikes is still distant.
- **Curve:** We continue to expect steepening across the curve. Reasons behind include 1) the ongoing Dutch pension fund reform, which should see some spill over from the swaps space to the fixed income world as well, 2) the German fiscal story that should continue to ensure issuance increases and a growth rebound, and 3) markets looking to price in a higher term premia as growth rebounds and hikes become a distant but most likely step to think about in March 2026 onwards.
- **EGB spreads:** 2025 has been the year of EGB spread convergence and we think 2026 will sing a similar tune. That said, OATs should continue to be pressured by politics (fair value: 75-90bp vs 10yr Bunds), while BTPs are likely to enjoy ongoing demand on dips thanks to their successful fiscal consolidation (fair value: 75-85bp vs 10yr Bunds). Spain is outperforming in terms of growth and the fiscal side looks under control (fair value: 45-60bp vs 10yr Bunds). Against this backdrop, Germany will have to face higher issuance and a worsening of their fiscal balance.
- **Swap spreads:** Well behaved lately, but we think issuance should tip the balance and see Bunds underperform swaps. In the long end (30yr), the Dutch pension reform will likely offset some of that flow, anchoring current swap spread levels.

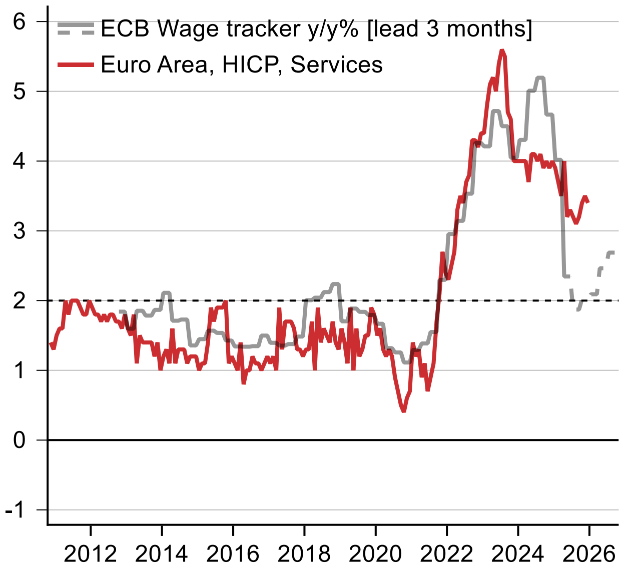
EUR FX

- **The view:** Outperformance of EUR in 2025 was rapid but gains slow from here. We see 1.17–1.22 by end-2026 thanks to rising Global growth. Greenland uncertainty pushes the USD debasement trade into the minds of Europeans, but better uS data could lead to some nearterm USD strength.
- **Risks ahead:** Risks skew to a lower EUR/USD if US re-accelerates or German fiscal fails to offset manufacturing slump as the long EUR/USD remains rather consensus. But tariffs from the US and Fed independence concerns offset that.

Euro Area PMIs

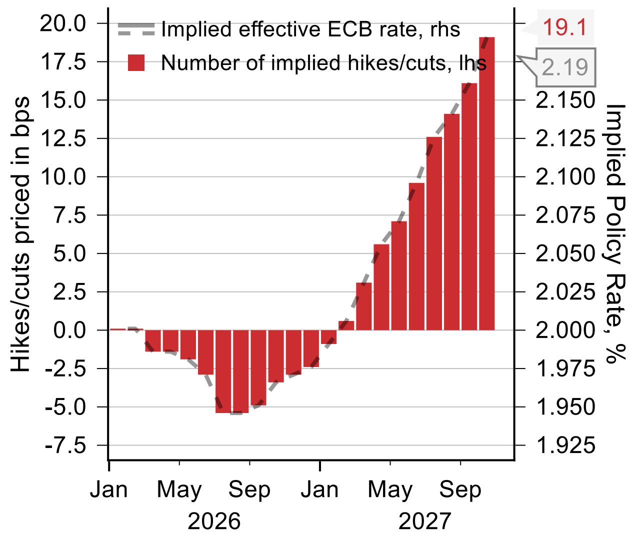


ECB wage tracking leads Services CPI

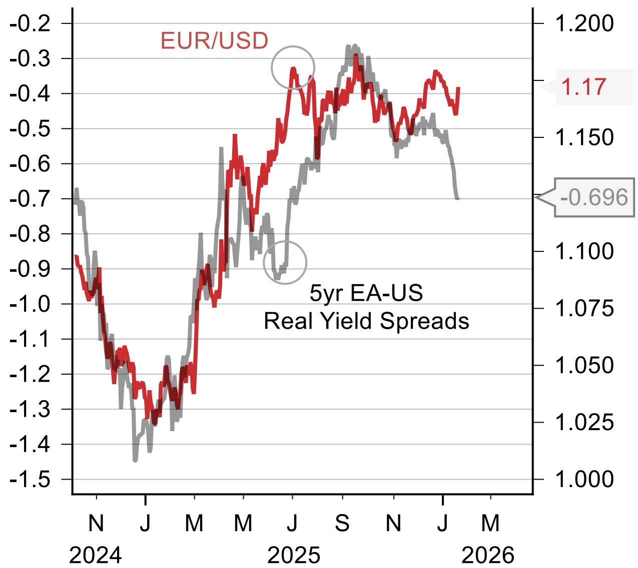


Implied number of hikes/cuts from the ECB

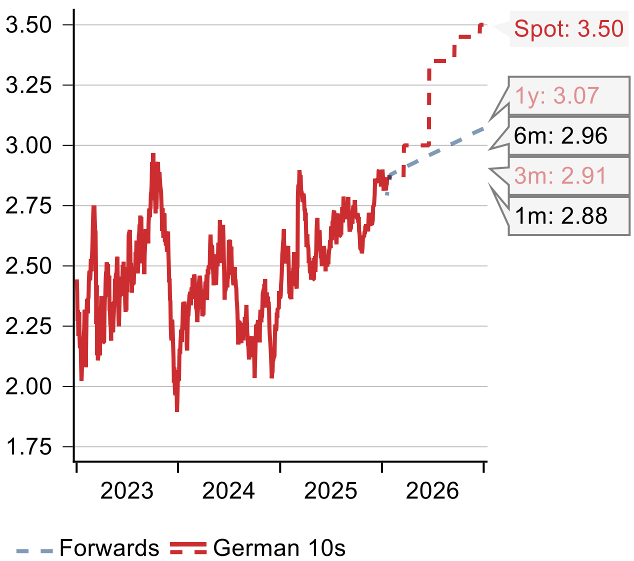
Assuming uniform 0.25 ppt hikes/cuts. Based on €STR futures and the spread between ECB Deposit Facility Rate and €STR of 0.071



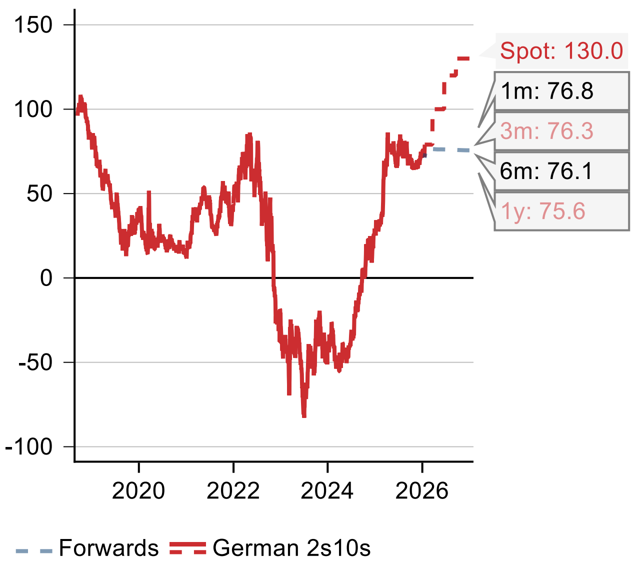
EUR vs 5yr Real yields



Germany 10s vs forwards



Bund 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 21 January 2026)

USD Policy

- **Growth:** GDP nowcasting at 5.1% and the potential for a rebound in US surveys if leading indicators are right (looser FCI, rising willingness to lend in SLO, Philly new orders). It's hard to be pessimistic with tight credit spreads and equities near records. But a lot of that growth is being fuelled by AI Capex and concerns are rising in regards to tariffs.
- **Inflation:** CPI at 2.7% but set to fall thanks to lower commodity prices, housing costs and weak tariff passthrough. Surveys suggest the potential for broad based price gains, but ISM Services prices have come off the boil. Could the Fed be looking at 2.0% CPI faster than expected?
- **Labour:** Unemployment is the key variable for the Fed and the problem is that it's rising with a fast pick up in youth unemployment; a phenomenon that we've not seen in previous cycles (AI?). High frequency tracking of the labour market does however suggest a potential rebound with lower claims, higher revelio ADP weekly series and healthy NFIB. Could Q1 lead to a slightly less dovish terminal rate forecast for the Fed?
- **Politics:** Will Lisa Cook hold onto her job at the Fed? Who will be the next Fed chair (May 26)? Will the Supreme Court rule against IEEPA tariffs and lead to refunds being paid? How will the fiscal spend in Q1/Q2 feed through before the midterms?
- **Policy:** Our US Econ expect no more rate cuts this year and suspect the new Fed chair will keep rates on hold for most of 2026. But we expect this market to continue to price in a 3% terminal rate for Fed thanks to labour market uncertainty and the political pressure. But the pace at which we arrive to 3% is likely to be slower than priced.

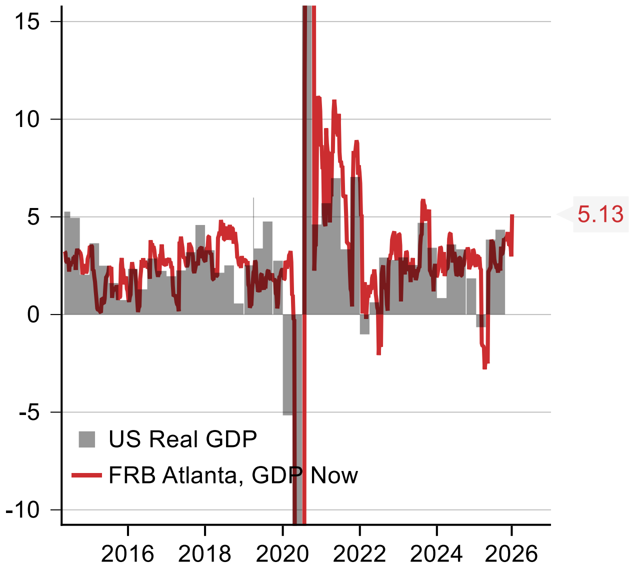
USD Rates

- **Duration:** US macro data keeps surprising. Couple that with the end of Powell's term and geopolitical risk premia and it's difficult for markets to find much direction. With the risk of a job market collapse now lower, markets are testing the 3% terminal view, with 1y1y now trading above 3.25%. Recent news on Greenland and Hassets have sent UST yields higher and we think there will likely be duration buyers if 30yr yields test 5%. Later this year, we think the bearish momentum will continue. Reasons: 1) our view of an ongoing inflation overshoot as the Fed delivers further cuts to an economy that is proving resilient; 2) the supportive sentiment in USD risk assets that will likely prevent any sort of strong risk-off flow; and 3) the decrease in confidence in the US government that could see investors demand a higher term premia from USTs.
- **Curve:** The curve has seen some shy steepening in December and we think this can continue. We expect the curve to steepen in coming quarters as we expect the front-end will remain well anchored in the next 1-2 quarters due to risks to the labour market, making the 10yr+ a higher-beta product vs the 2-5yr area – a theme also fuelled by geopolitical headlines.
- **Swap Spreads:** The deregulation agenda kicked off with the eSLR change and even though we expect more to come (incl. exempting USTs from eSLR, reforming the GSIB surcharge, etc), geopolitics and how much we have moved already is raising the bar to see more. That said, we still expect 2-5yr swap spreads to encounter buyers again later in the year (with Fed purchases and further deregulation helping).

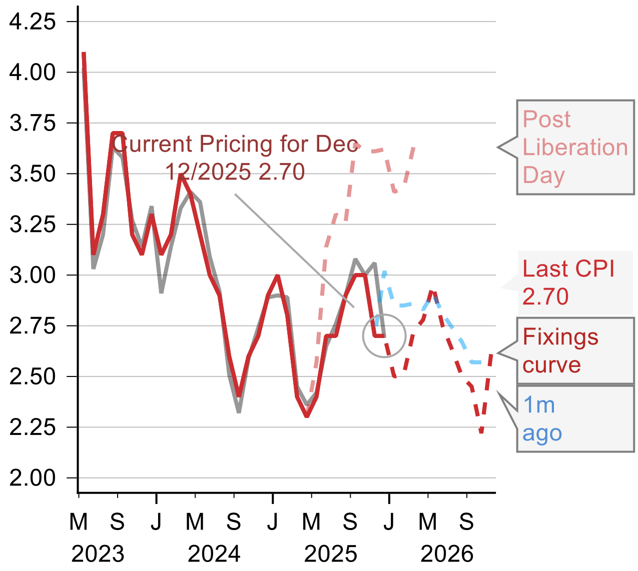
USD FX

- **The view:** The rush to hedge USD assets after Liberation Day is long over, but recent tariffs and Greenland news have provided it with a fresh catalyst to resume. We expect the USD to weaken this year thanks to German fiscal spending, the new Fed Chair in May 2026, rising Global growth and broad USD debasement trades. But short term we expect US data surprises to support a stronger USD despite the Greenland uncertainty.
- **Risks ahead:** Does the AI boom lead to structurally higher unemployment or does the equity market rally witness a bubble pop? How dovish will the new Fed chair really be dovish if fiscal policy stimulus boosts growth and Labour markets hold up? Could the markets bias for deeper rate cuts be wrong and boost the USD?

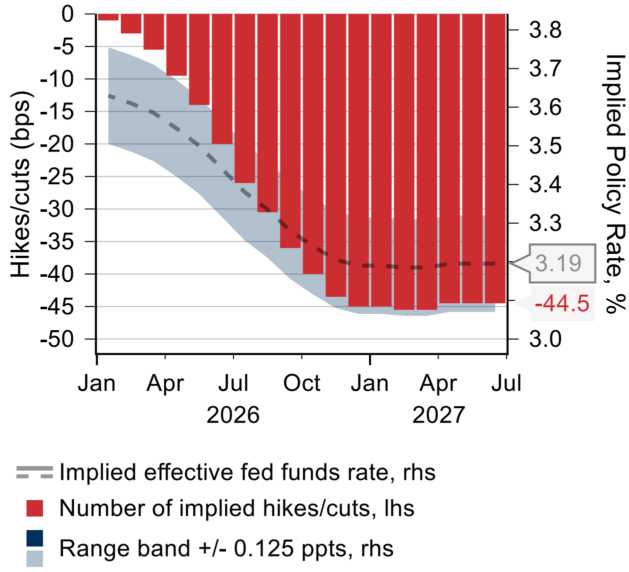
GDP Q/Q nowcasting remains upbeat



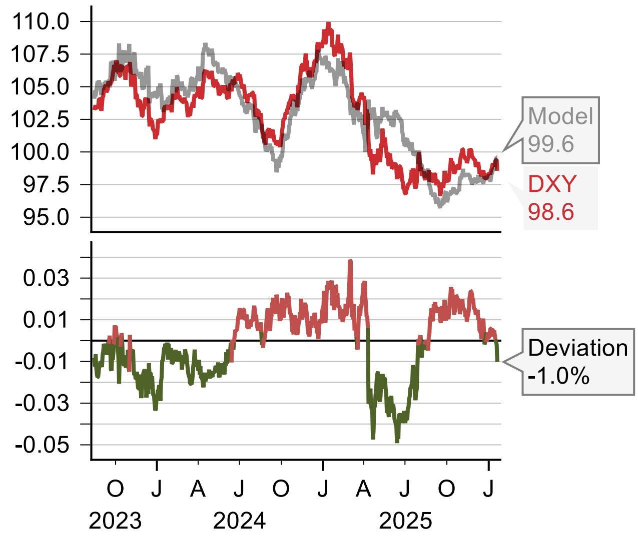
US CPI TIPs fixings y/y%



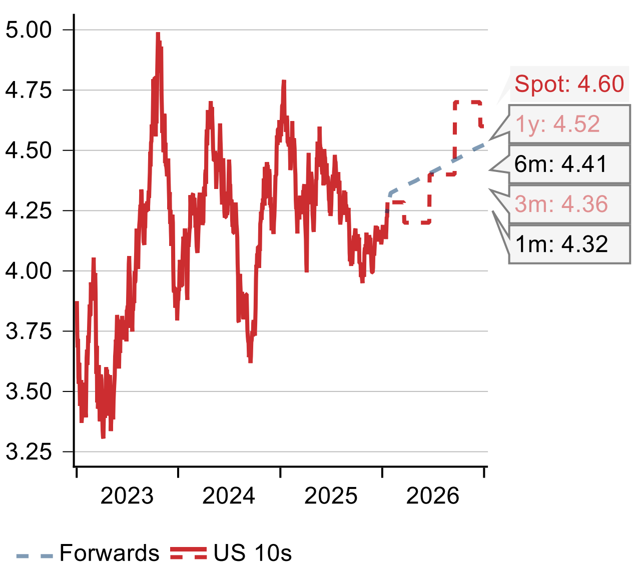
Implied number of hikes/cuts from the US Fed



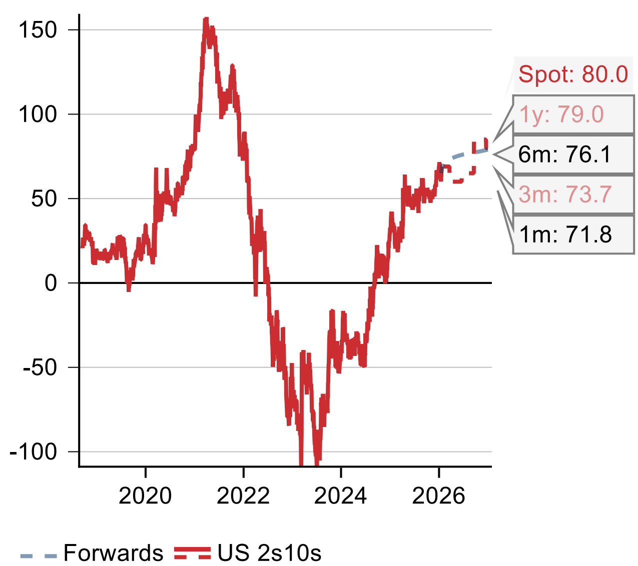
DXY fair valuation (2y nominal, 5yr real yield spreads, SPX and Oil)



US 10s vs forwards



US 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 21 January 2026)

GBP Policy

- **Growth:** Growth in the UK (latest quarter 0.1% q/q) is set to disappoint BoE forecasts with the Service sector suffering from budget induced tax hikes but also a structurally slower housing market that will have second round effects for tertiary industries. For the past two years UK GDP has realised between 1-2% y/y vs the 1-3% range in the post GFC period.
- **Inflation:** CPI avoided 4% and has fallen sharply since on a path lower from here. UK budget tax cut measures could take off 0.3%-05% from UK CPI alone, add on top of that slower Global food prices and housing rents **the UK Inflation risks are to the downside** here in our view.
- **Labour:** It's hard to trust the LFS survey due to low response rates, but unemployment is rising (5.1%), private wages are slowing (3.6%), PAYE data suggests job cuts for most of 2025 and surveys highlight recessionary demand among firms. Labour market slack is building and is the main factor behind why the BoE could cut rates further this year.
- **Politics:** Labour's popularity with the public has collapsed and Keir Starmer has struggled to pass spending cuts in parliament despite a strong majority. With Reform in the lead among opinion polls it opens the risk to leadership challenges for Keir Starmer to come (May local elections the decider). It's going to be a long wait until 2029.
- **Policy:** The BoE is split 5-4 in favour of cutting rates towards neutral (2.25-3.75%) with the 4 hawks arguing high spot inflation and inflation expectations makes it hard to justify cutting rates here. But the core and doves of the BoE will likely react to the fiscal tightening in the budget and labour market slack to justify a faster pace of rate cuts in our view with February, April and July too. The data will however need to weaken in Q1 to justify the idea of a 3% terminal for markets.

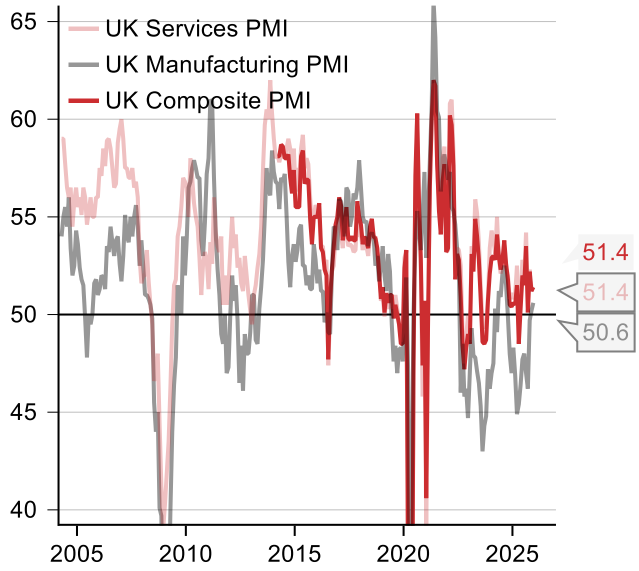
GBP Rates

- **Duration:** Gilts have enjoyed a very good start of the year, trading very close to the lower end of the 4.35-4.85% range. We see 10Y Gilts breaking the lower end of their 4.35–4.85% range that has held for most of the year. Term premia is still elevated vs the US and EU, which together with a dovish BoE and the ongoing support to decrease WAM from the DMO make Gilts an attractive buy on dips. The fiscal side is still a bearish risk for GBP rates (especially any leadership contest), but tax hikes should hurt growth and put downside pressure on the amount of real term premia priced in the near term.
- **Curve:** Near-term, we expect the steepening to continue and gain more traction as the BoE is pushed into cutting in coming quarters (market pricing for BoE cuts looks too low!). Medium-term, we expect the steepening momentum to remain, but also think that the 30yr sector will remain a bit more shielded due to the decrease in long-end issuance that we expect will continue in FY26/27.
- **Swap Spreads:** Swap spreads have caught a bid following the good start of the year. However, longer-dated Gilts still trade slightly cheaper on ASW vs USTs. This is mostly a demand-supply mismatch: record levels of Gilt issuance at a time when there is a lack of structural buyers. Looking ahead, if the rate cut repricing that we expect materialises, we should see Gilts outperforming swaps as real investors should feel more confident in buying Gilts, which would help swap spreads tighten.

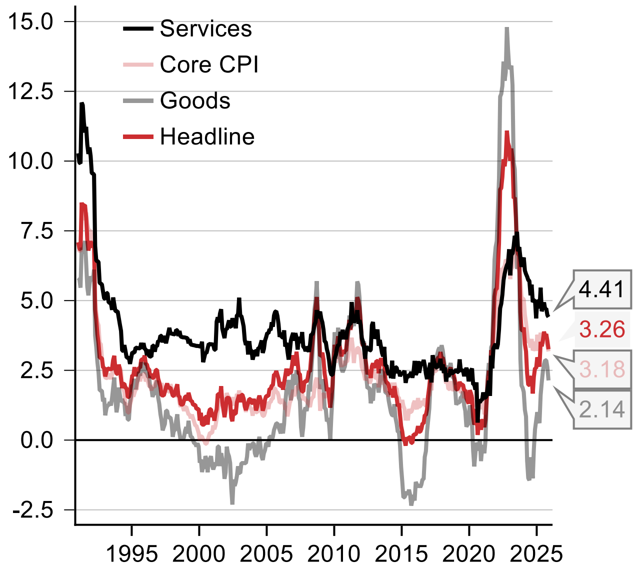
GBP FX

- **The view:** With the broad USD on the backfoot and Global growth accelerating it's hard for GBP not to outperform, but we have a dovish BoE view. We expect EUR/GBP at 0.92 by Dec26 and GBP/USD at 1.33 (Dec-26).
- **Risks ahead:** The risk is that Global growth lifts GBP or inflation finds a way to rebound. But the USD may stage a rebound if US data surprises climb and Fed cut pricing is reduced. GBP has also traded in line with it's fiscal term premium in long end rates in November; if suddenly the fiscal picture were to deteriorate it could lead to fresh GBP selling.

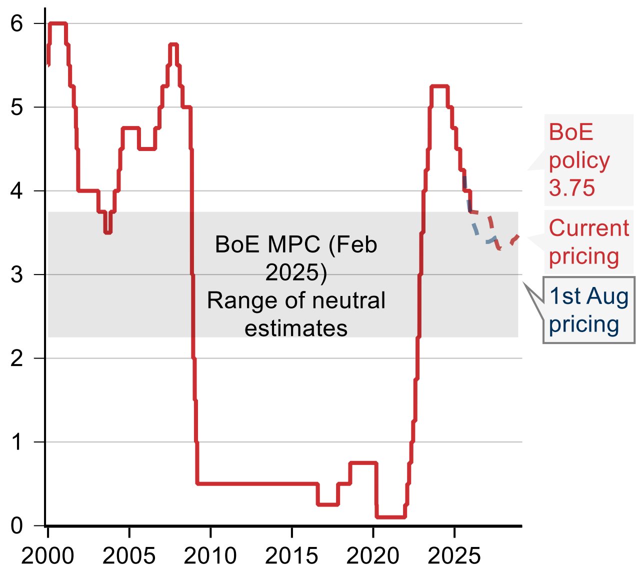
UK PMIs



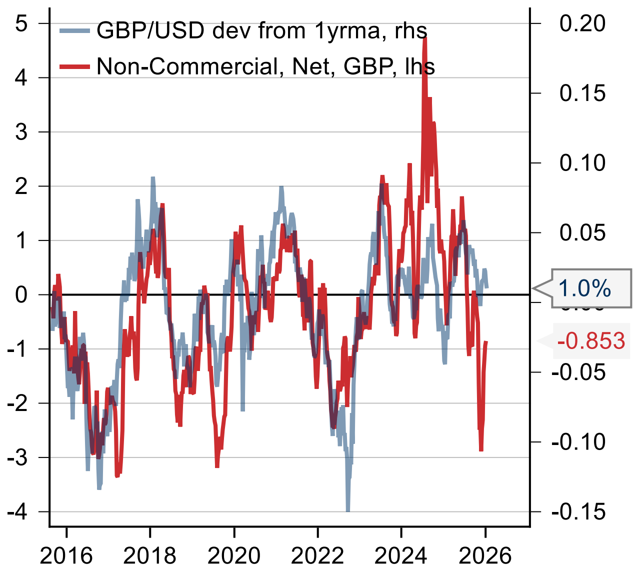
UK CPI



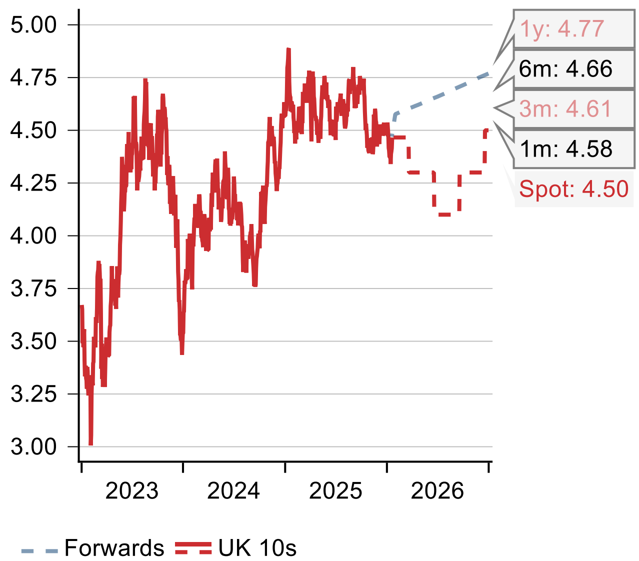
Bank of England (BoE) vs "neutral"



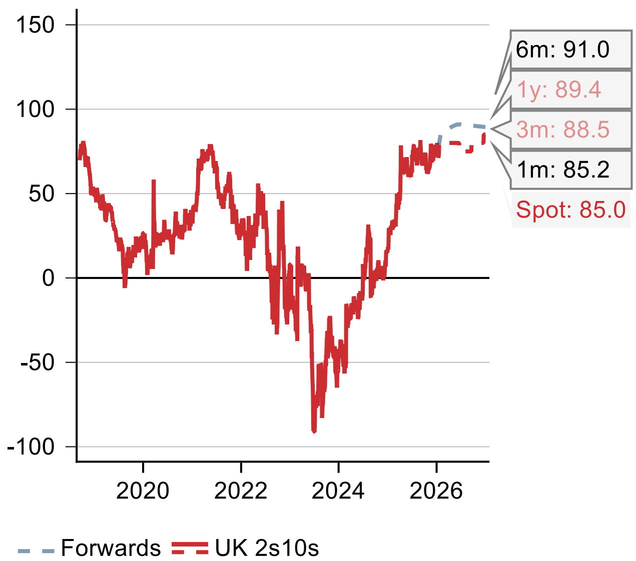
Net GBP/USD non-commercial positioning



UK 10s vs forwards



Gilts 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 21 January 2026)

JPY Policy

- **Growth:** GDP softened recently (0.7% y/y) and the output gap remains slightly negative (-0.3%). The BoJ view depends on a) US data b) USD/JPY c) Domestic politics and data. But PMIs are above trend, tourism is growing and services are going from strength to strength. Meanwhile JPY remains weak helping exporters. Where does the recession come from?
- **Inflation:** Headline CPI is cooling from a peak of 4.0% to 2.9% now thanks to cooling rice prices and government subsidies on energy prices. It's expected to fall even further below to 2% in 2026 thanks to the fiscal efforts in the latest budget. Some analysts even pencil in as low as 0.5% by end 2026. But will strong services and wages defy those predictions?
- **Labour:** Japan's labour market remains near the historical tights, with the tankan survey suggesting employment conditions have only been tighter during the 1980s/90s bubble mania. Wage negotiations are expected to drive another strong round of wage gains for 2026 allowing for further confidence from BoJ officials to raise rates.
- **Politics:** We had a significantly expansionary budget from the Takaichi administration. The question is how much JPY and JGB weakness will the administration tolerate? And how many tax cuts will the election offer ahead?
- **Policy:** With stable data and only small signs of a drag from tariffs thus far BoJ officials are raising the probability of a rate hike. The politics and JPY weakness raise the chance of an April hike, but July and December are more likely timings taking us to 1.25% by end 2026 and a 2% terminal in 2027/28.

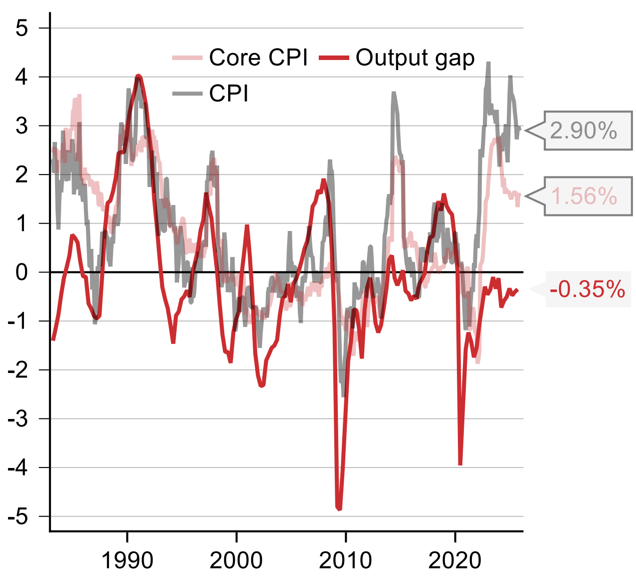
JPY Rates

- **Duration:** Rate hike expectations for the BoJ are still alive. Our preferred proxy of terminal (1y1y) keeps moving higher and the economic backdrop continues to point to economic resilience. While front-end JPY rates find out what the new terminal could be (we see at 2%), the bearish pressure in JGBs will also remain. The consumption tax cut extension will kick off some ppt from CPI, which can make the front-end a bit slower moving, but rate hike expectations and growth term premia should be priced in longet tenors. Two other factors that drive our bearish view on JGBs are the coming fiscal stimulus and the domestic buyers' strike. We see 10yr JGB yields move towards 3.0% by December 2026. Within this bearish pressure in JPY rates, we expect the long end to be slightly better anchored due to ongoing support from the MoF and their plans to decrease longer-tenor issuance that may bring some buyer's interest back.
- **Curve:** Despite the BoJ ramping up markets' hiking expectation, the steepening momentum of the curve remains strong thanks to the fiscal and political premia. We expect this steepening to continue into 10s. Meanwhile, the super long end is likely to remain more shielded as political term premia eases, foreigner investors buy the dip and, eventually, domestic investors, who have been largely absent throughout this year, come and buy.
- **Swap Spreads:** Swap spreads have been range bound lately with some underperformance due to the sell-off in JGBs. While other tenors may still underperform, we expect super long-term swap spreads to keep underperforming in the short term due to the snap elections. But later in the year, a combination of a decrease in issuance from the MoF, ongoing demand from ALM accounts (insurers, pensions), a supportive carry and roll profile, and lower JPY rates vol should provide some support.

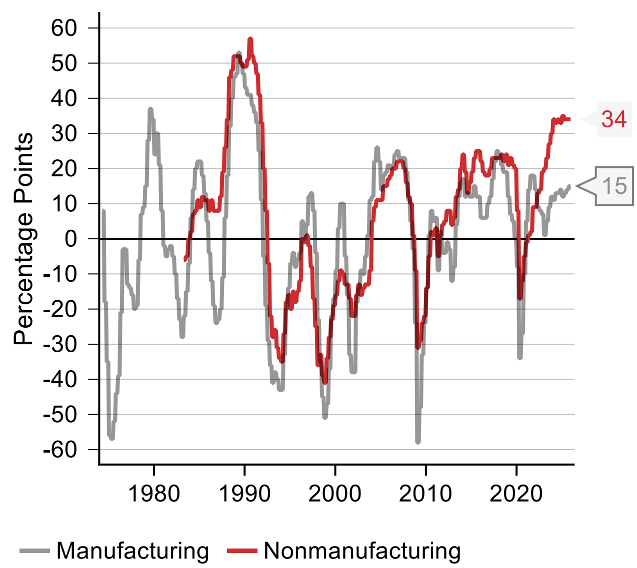
JPY FX

- **The view:** With the BoJ underdelivering in 2025 it has led to pronounced JPY weakness compared to expectations. We expect BoJ hikes will stem the JPY weakness and lead to a lower USD/JPY in 2026 but would avoid trading that view until Q2 of 2026 when the decisions by the new Fed chair become clear and election premium comes out of JGBs. We expect **JPY strength to 147 by end 2026 but it's a low conviction view.**
- **Risks ahead:** Are Fed cuts fully priced and does US exceptionalism creep back into market narratives lead to a stronger USD? Does the Japanese politics take a more Abenomics approach and 170 in USD/JPY materialises? Is the cost of carry being short USD/JPY just too costly? How much of a drag will Japan-China tensions have on tourism and trade?

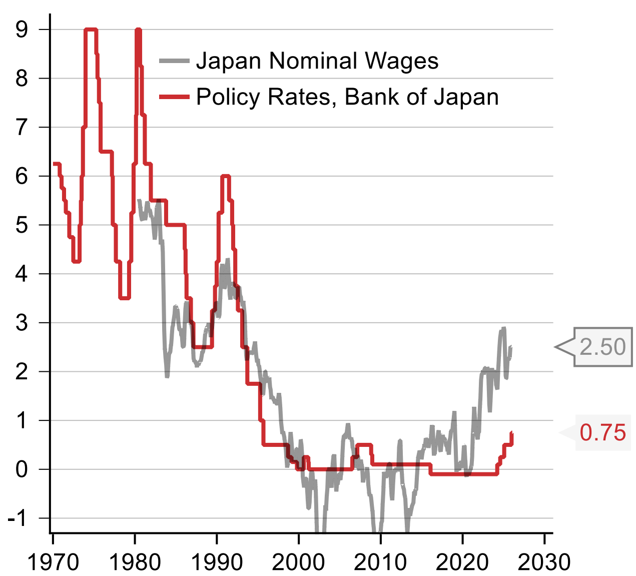
Japan: Output gap and inflation



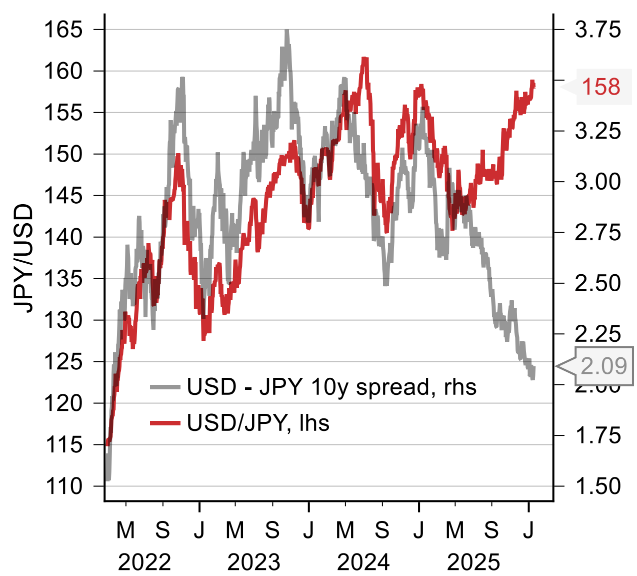
TANKAN, Business Conditions



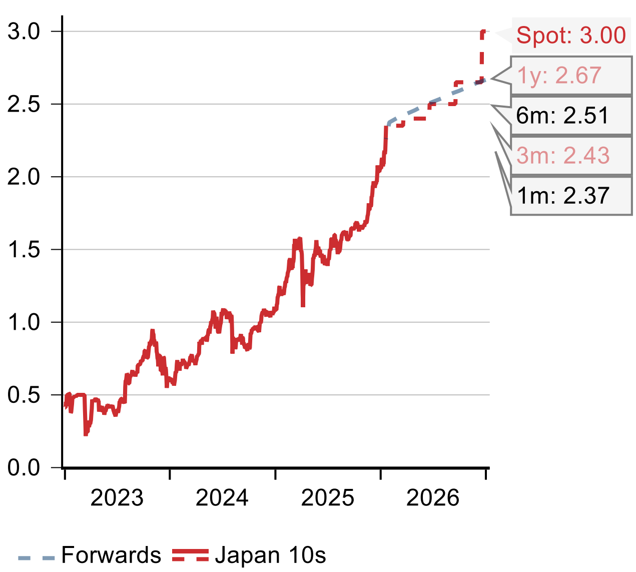
Japan Nominal Wages vs BOJ Policy



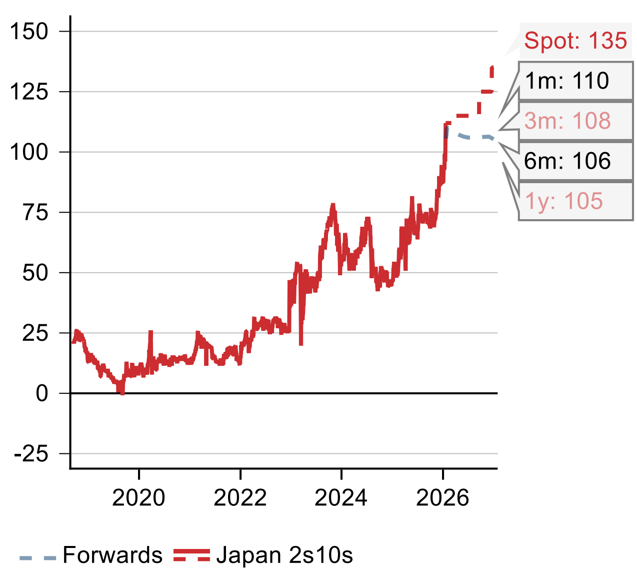
USD/JPY vs USD - JPY 10y spread



Japan 10s vs forwards



JGB 2s10s vs forwards

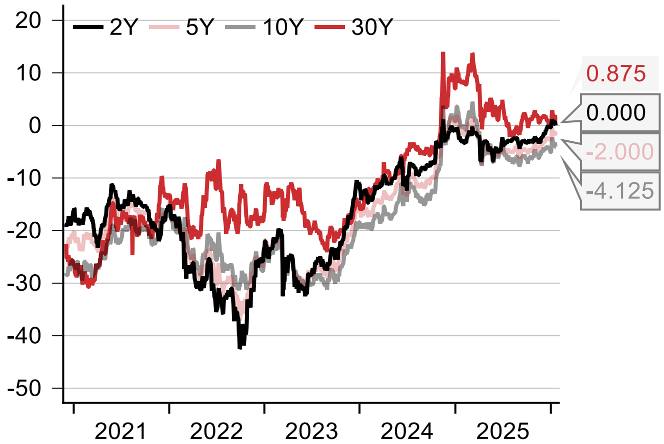


Sources of all charts: Bloomberg, Macrobond (latest figures as of 21 January 2026)

XCCY

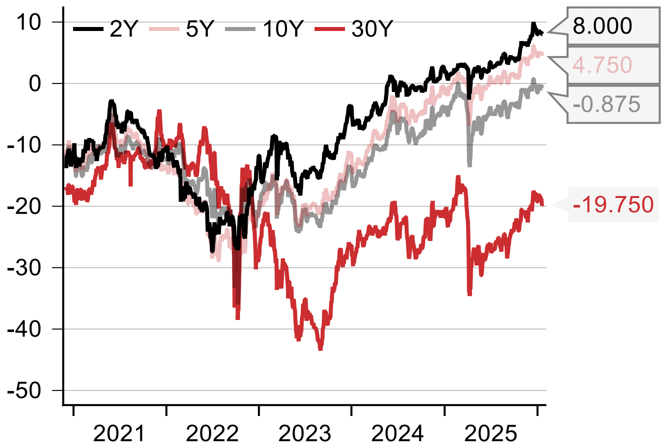
- **The view:** We expect the dollar premium to remain subdued, with only temporary spikes in the very front end due to seasonal funding pressures. Ample USD liquidity, no QT from the Fed but bill purchases instead, and US deregulation should keep the dollar premium contained and the medium-term tightening theme intact in most XCCY basis spreads. Issuance-wise, 2025 was a stellar year for reverse yankees and reverse samurais. We expect a busy start of the year for USD issuance as corporates face increased funding needs and prefer to front-run hyperscalers, but later on we may see reverse yankees come back and put a cap to how much XCCY spreads can tighten in spaces like EURUSD XCCY.

EURUSD XCCY basis (bp)



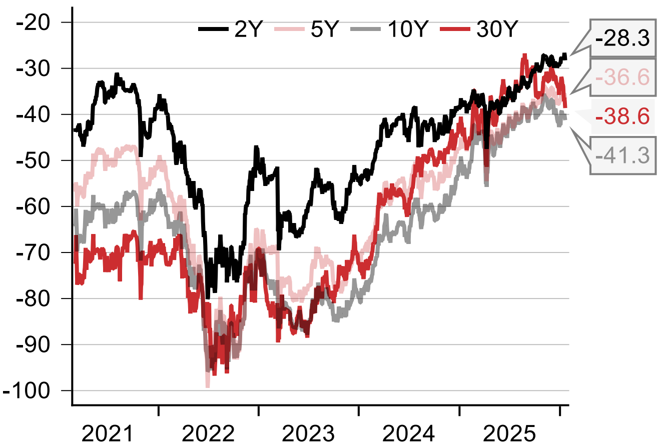
EUR: We expect the EURUSD XCCY basis curve to steepen in coming months, especially in the 5–7Y versus 30Y segment. This is driven by our bias for tighter EUR swap spreads into and through early 2026 (vs USD peers) as markets prepare for more German government issuance and US financial deregulation. The 5-7Y part of the curve will likely remain pressured lower due to the ongoing popularity of EUR issuance amongst US-based issuers – one of 2025's key themes that we expect will come back in 2026 as well.

GBPUSD XCCY basis (bp)



GBP: The "Sterling premium" (GBPUSD XCCY trading above parity) will likely persist, supported by relatively tighter BoE balance sheet policy versus the Fed and a structurally larger appetite for reverse GBP issuance (vs GBP issuance from non-UK based issuers). Regarding the long end, we think this year could be the year we see the normalisation as pension risk transfer flows may slow down while Gilts finally offer a decent pick-up against XCCY-hedged peers.

USDJPY XCCY basis (bp)



JPY: We expect the paying momentum in USDJPY XCCY to continue as JGB ASWs are again attractive thanks to the bearish JGB momentum and the widening in broader XCCY markets. Moreover, Japanese investors are unlikely to add much overseas exposure, taking a receiver flow out of the equation. The BoJ's gradual hiking cycle and the strong demand for USD paper from JP-based issuers, will also help support the tightening. The risk to our view is if larger than expected receiving flows arise due to Japanese needs' to swap JPY loans to USD to commit with the US-JP trade deal.

Sources of all charts: Bloomberg, Macrobond (latest figures as of 21 January 2026)

Mizuho Key Forecasts

Policy rates	20-Jan	Mar-26	Jun-26	Sep-26	Dec-26	Δ Dec26
Fed (mid point)	3.625	3.625	3.625	3.625	3.625	0bps
ECB (depo)	2.00	2.00	2.00	2.00	2.00	0bps
BoE	3.75	3.50	3.25	3.00	3.00	-75bps
BoJ	0.75	0.75	0.75	1.00	1.25	50bps

Rates		20-Jan	Mar-26	Jun-26	Sep-26	Dec-26
USTs	2Y	3.59	3.60	3.75	3.85	3.80
	5Y	3.82	3.80	4.00	4.25	4.15
	10Y	4.22	4.20	4.40	4.70	4.60
	30Y	4.84	4.80	5.05	5.35	5.25
Germany	2Y	2.08	2.00	2.15	2.15	2.20
	5Y	2.43	2.50	2.80	2.85	2.90
	10Y	2.83	3.00	3.35	3.45	3.50
	30Y	3.44	3.65	4.00	4.15	4.15
UK Gilts	2Y	3.67	3.50	3.40	3.50	3.65
	5Y	3.87	3.70	3.60	3.75	3.85
	10Y	4.40	4.30	4.15	4.30	4.50
	30Y	5.15	4.90	4.80	4.90	5.00
JGBs	2Y	1.21	1.25	1.35	1.40	1.65
	5Y	1.68	1.75	1.80	2.05	2.40
	10Y	2.26	2.40	2.50	2.65	3.00
	30Y	3.60	3.75	3.75	3.85	4.00

FX	20-Jan	Mar-26	Jun-26	Sep-26	Dec-26
EUR/USD	1.16	1.18	1.19	1.20	1.22
USD/JPY	158	154	152	150	147
GBP/USD	1.34	1.31	1.31	1.32	1.33
EUR/GBP	0.87	0.90	0.91	0.91	0.92
EUR/JPY	184	182	181	180	179
GBP/JPY	212	202	199	198	195
DXY	99	97	97	96	94

**Fed policy and 10Y UST forecasts by Mizuho Securities US. Rest of UST and Rates figures by Mizuho International Plc (MHI). Other Policy and FX figures by Mizuho Bank Ltd.*
**Sources for current numbers: Bloomberg, Macrobond (as of 21 January 2026).*

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