

G4 Rates & FX Monthly

February 19, 2026



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The Background

The View

USD

The market has become overly concerned about AI's impact on growth and equity returns in our view. Forgetting that it's likely to be a mixture of mild job displacement but ultimately productivity enhancing and good for earnings. GDP Nowcasting is at a healthy 3.6% and most surveys optimistic or bouncing back. It's hard to be pessimistic despite the markets recent risk off tone thanks to AI sector rotation developments. A mix of Labour market signals has the market torn between high frequency data weakness vs strong NFP. But this remains a market biased to receive rates given the political pressure from the White House on the Fed.

Fed speak has turned more hawkish for now. **Our US Econ expect no more Fed cuts this year.** The question is whether the data will rebound enough (due to fiscal spending) to justify that call. We also wait to see if Cook's tenure continues (Supreme Court decision due by June).

FX: FX remains torn and resembling random walk at times due to high levels of FX hedging dislocating it's correlation to fixed income and equity flows. But the dominant force for a mild path of USD weakness will be a rise in Global growth. **DXY to 94 by end-26.**

Rates: Worries about the labour markets have triggered a bullish repricing across the curve but we expect data will show lower risk of labour market deterioration, supporting **10Y UST yields to rise towards 4.50% in 2026** as inflation overshoots persist and the Fed likely continues to cut 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 – although our conviction on the curve is lower due to US institutions being keen to keep long-term rates low. The appointment of Warsh is triggering a UST ASW 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

Growth has been better than expected if judging from healthy data surprises but hard data has underwhelmed vs soft (German IP softening). Inflation has fallen below 2% thanks to base effects but the ECB expect that and won't be shaken by it in our view. Labour markets in Germany and France are slowing with wage growth set to decline in a fashion that may have some doves concerned. The downside risks are bigger in Q1 but the we should expect a rebound in Q2 and 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 recent rally in EGBs has mostly been US led rather than a change in the European picture.

The divergence in outlook between the big 4 is stark, German and French unemployment is rising but Spanish and Italian falling. Meanwhile French politicians whilst managing to pass a budget still face the risk of rating agencies downgrading OATs and in our view the uncertainty will carry through to 2027's Presidential elections. Italy meanwhile will hold a referendum in March which could lead to snap elections being called with Meloni looking to take advantage of healthy polls.

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, US fiscal impact taking shape). 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, if German fiscal spending struggles to offset manufacturing's slowdown and the ECB talks down the EUR strength too.

GBP

The UK remains our highest conviction view of a Labour market induced slowdown that will take both inflation and rates lower in 2026. The UK stands out as fiscally constrained vs Germany, the US and Japan and has a central bank actively cutting vs the Fed and ECB on hold. Growth is likely to remain sluggish and inflation to collapse to 2% after recent tax cuts. But the main problem is judging whether Keir Starmer manages to hold onto leadership after the May local elections. Could a Rayner or Streeting premiership follow? Gilts will trade with a political premium.

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 March, June and September**, taking Bank Rate toward the midpoint 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 0.91 by Dec-26, while **GBP/USD holds around 1.34 through 2025-26.**

Rates: Politics continue to muddle the picture for Gilts, making it difficult to see them rally aggressively. We still 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 elevated, which together with a dovish BoE continue to make Gilts an attractive buy on dips. **The curve is likely to remain rangebound on the political uncertainty**, while 10s30s segment is likely to flatten thanks to the decrease in long-term issuance and decreased fiscal worries (unless politics deteriorate). **Swap spreads to remain supported** on the more dovish BoE and contained fiscal risks.

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% and is likely to fall to 1.5% or lower, aided by subsidies and softer rice prices. 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. April is a possible timing for a BoJ hike and depends on USD/JPY but we **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 (142 or so) 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. 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. Data surprises are healthy and tariffs have had less of an immediate effect on business confidence too. But there has been some recent softness in PMIs, and a dovish narrative in the US spilling over.
- **Inflation:** The ECB has achieved their 2% goal. There aren't many strong signals from the leading indicators for what lies ahead. Expect a near term base effect driven dip (1.7% currently), commodities spiked in January but have come off from the highs and natural gas is significantly lower. Core CPI's decline is expected to be gradual with lower wages helping.
- **Labour:** Unemployment at 6.2% 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 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 has managed to pass a budget delaying political pain until next year, where centrists face large polling deficits. Italy has an incoming referendum, does it trigger an election?
- **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 in our view rather than cuts. Does AI roll out change that?



EUR Rates

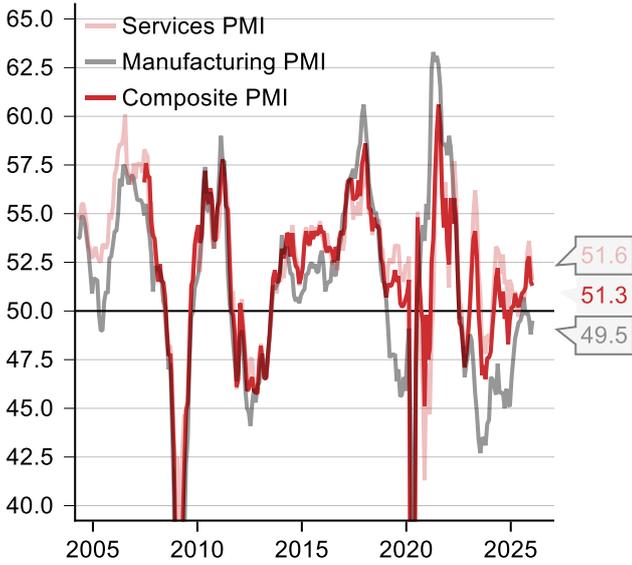
- **Duration:** We think that the German fiscal story is still not fully priced in. Defence spending will increasingly come from the core budget and a broader debt-brake reform is on the agenda. This will add to the already rising borrowing needs (+€54bn vs 2025). Together with the growth impulse this fiscal stimulus should create as labour bottlenecks are easing, we see 10yr Bund yields break above the YTD highs of 2.95-3.00% in coming quarters. 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:** 2026 has been a strong start for the EGB spread convergence theme but momentum is stalling. Coming March, OATs and BTPs should feel renewed pressure by politics (fair value OAT: 75-90bp vs 10yr Bunds for 2026; fair value BTP: 75-85bp vs 10yr Bunds). Spain is outperforming in terms of growth and the fiscal side looks under control but they are still a bit rich (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.



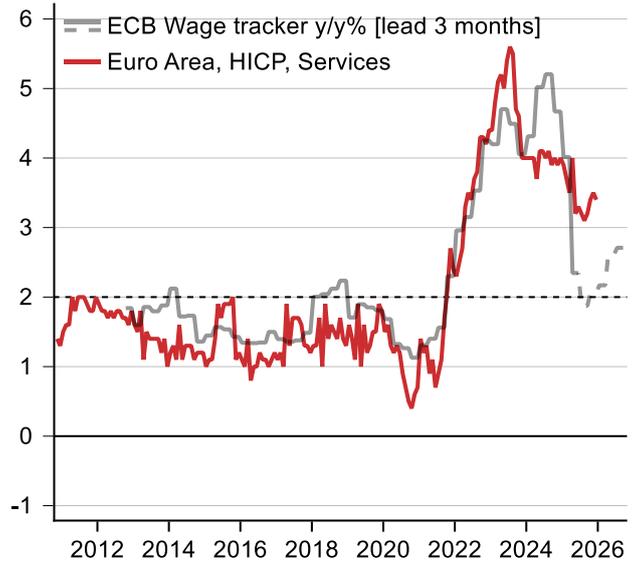
EUR FX

- **The view:** Outperformance of EUR in 2025 was rapid but gains slow from here. We see 1.20–1.22 by end-2026 thanks to rising Global growth. The USD debasement trade remains in vogue but risk off and 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

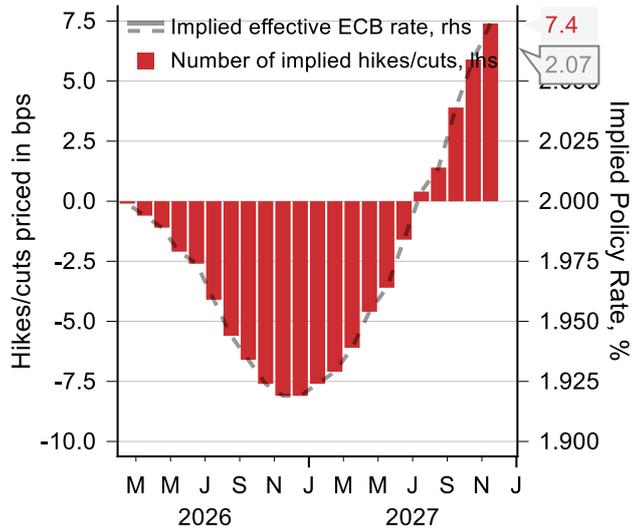


ECB wage tracking leads Services CPI



Implied number of hikes/cuts from the ECB

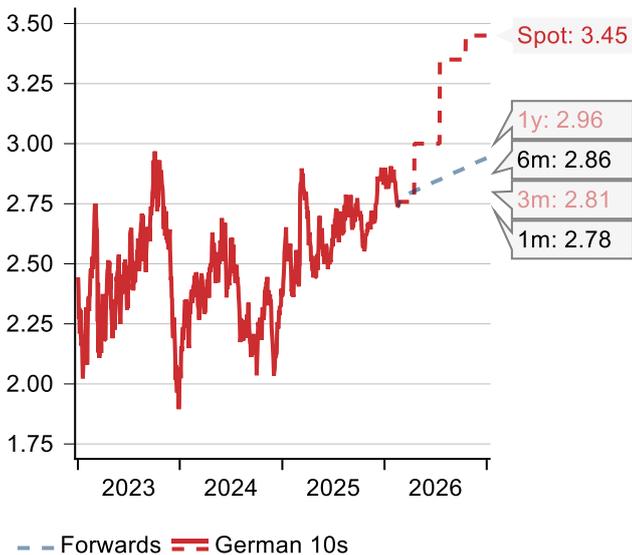
Assuming uniform 0.25 ppt hikes/cuts. Based on €STR futures and the spread between ECB Deposit Facility Rate and €STR of 0.069



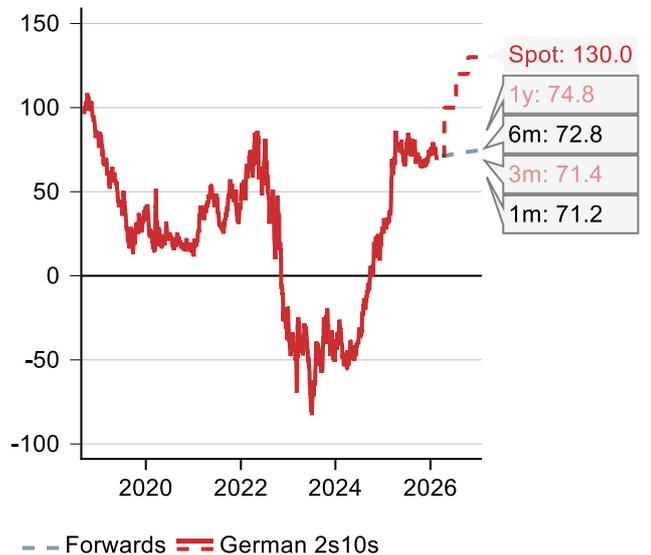
EUR vs 5yr Real yields



Germany 10s vs forwards



Bund 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 19 February 2026)



USD Policy

- **Growth:** GDP nowcasting at 3.6%, healthy data surprises and 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 on the disruption AI could cause for various sectors especially in software and intellectual property. It looks overblown in our view.
- **Inflation:** CPI at 2.4% and set to remain below 3.0% this year. Surveys suggest the potential for broad based price gains, but ISM Services prices have come off the boil and Truflation estimates are collapsing (suggesting 0.9% CPI). Could the Fed be looking at 2.0% CPI faster than expected? Is AI as deflationary as some assume? Or are surveys right with a lag?
- **Labour:** High frequency tracking of the labour market does suggest mixed messages. Weaker claims, JOLTs, revelio, ADP and collapsing consumer hiring confidence but that doesn't tally with a strong NFP, falling unemployment recently backed up by healthcare hires and also NFIB survey. The official data gets more weight at the Fed but the alternative data really is slowing, markets will be more prone to follow it and suggests other sectors outside healthcare are in bad shape.
- **Politics:** Will Lisa Cook hold onto her job at the Fed? 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? Will Republicans hold onto the House?
- **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 (FOMC dissents vs the Chair, first time since 1982). But we expect this market to continue to toy with the idea of a 3% terminal rate for Fed thanks to labour market uncertainty and the political pressure. No cuts in H1 at the very least and for what it's worth NLP modelling efforts suggest Fed Speak has been turning more hawkish of late.



USD Rates

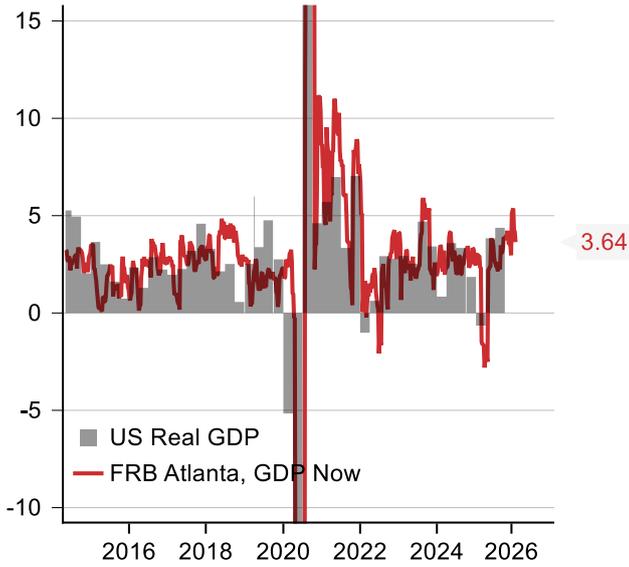
- **Duration:** The slowdown in private job market data has made investors worry again about labour market risks and front-end yields are finishing the month lower, with 1y1y close to 3.15% (after testing 3.05% earlier in the month). The 3.00-3.25% remains the anchor point for 1y1y until we get more clarity from Warsh, geopolitics (Iran now in the mix) and the data (both inflation and jobs). Duration has been well bid this month, led by the rally in the 5-10Y part of the curve (which seems to be related to carry plays as rates vol remain somewhat contained and the disinflation theme untouched). However, we think the bearish momentum will continue in USD rates. 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:** We expect the curve to steepen in coming quarters as the front-end will likely remain 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. Our conviction on this view is low as US institutions remain very keen on avoiding high LT yields.
- **Swap Spreads:** February has seen some profit-taking in long swap spread positions, which look related to the seasonal pick-up in rates vol and Warsh' appointment. We expect more deregulation to come (incl. exempting USTs from eSLR, reforming the GSIB surcharge, etc), which should support longs in the 2-5yr part of the curve (Fed purchases also helping).



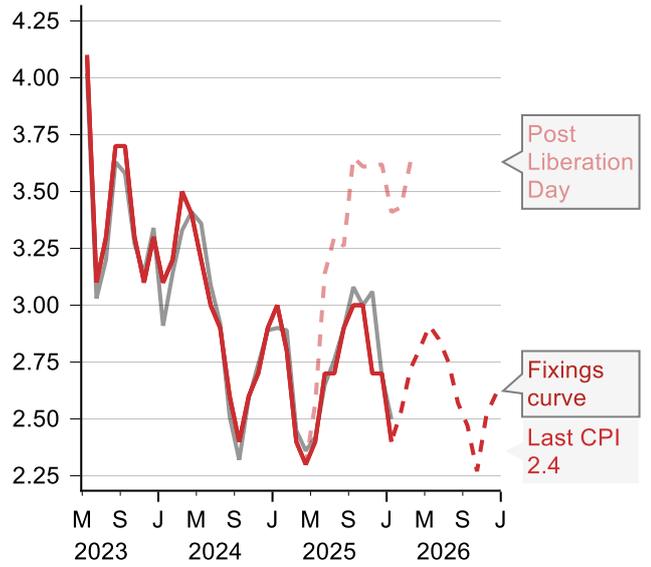
USD FX

- **The view:** The rush to hedge USD assets after Liberation Day is long over, but Geopolitical pressures on USD flows remain and fiscal stimulus Globally will keep growth on the front foot and with it the USD offered. 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. DXY at 94 (Dec-26), 93 (Dec-27).
- **Risks ahead:** Does the AI boom lead to structurally higher unemployment and 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 a turnaround boost the USD?

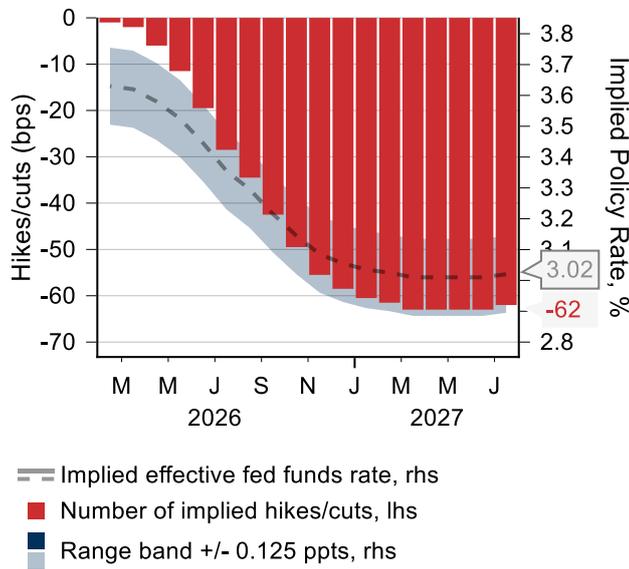
GDP Q/Q nowcasting remains upbeat



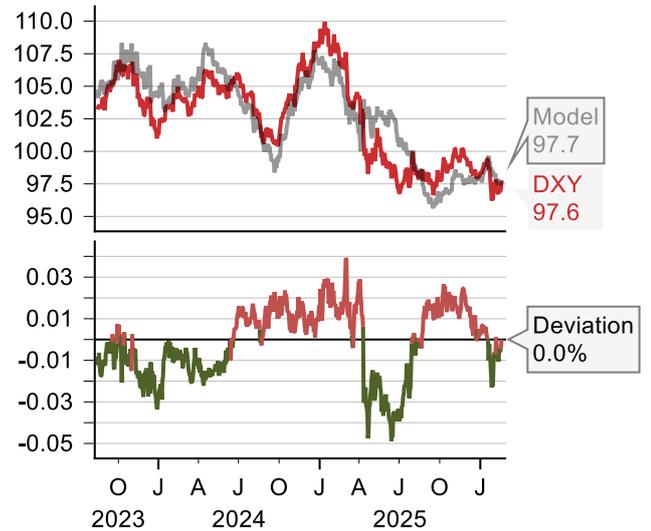
US CPI TIPs fixings y/y%



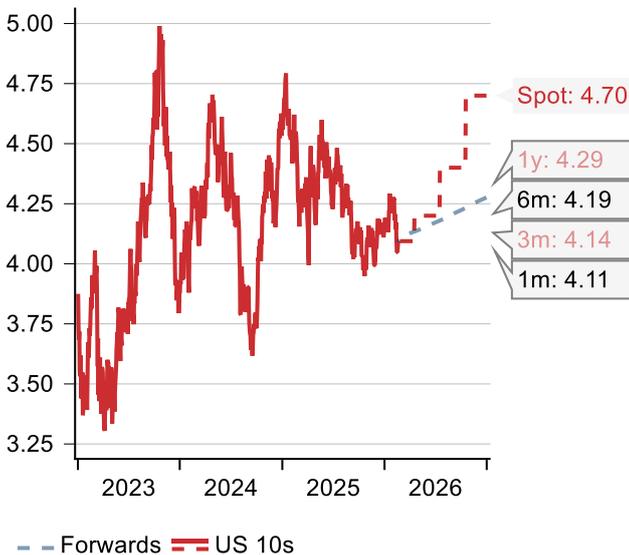
Implied number of hikes/cuts from the US Fed



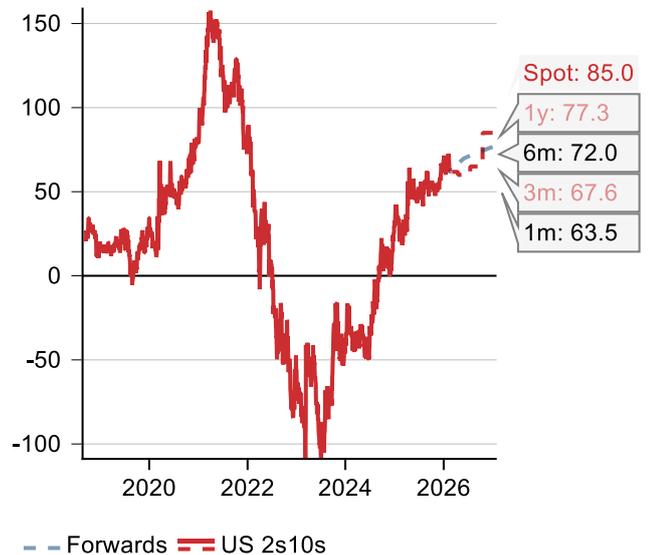
DXY fair valuation (2y nominal, 5yr real yield spreads, SPX and Oil)



US 10s vs forwards



US 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 19 February 2026)



GBP Policy

- **Growth:** For the past two years UK GDP has realised between 1-2% y/y in a significantly lower trend vs the 1-3% range in the post GFC period. The BoE expects a sluggish Q1 to then see growth rebound. PMIs and some surveys have been giving a supportive message in January but their correlation to GDP has declined post-COVID. Housing remains troubled.
- **Inflation:** UK budget tax cut measures could take off 0.3%-0.5% 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. The BoE now agrees and expects CPI at 2% by the Summer, could we see lower than that? Possibly, but even if CPI falls in line with forecasts it's significant.
- **Labour:** Unemployment is rising faster than the BoE expects (5.2%), private wages are slowing (3.5%), even public sector too (from very strong levels to 5.6% now), PAYE data suggests job cuts for most of 2025 and surveys highlight recessionary demand among firms. Labour market slack is building and is why the BoE could cut rates further this year.
- **Politics:** Labour's popularity with the public has collapsed, Keir Starmer struggles to achieve policy goals even with a majority. It opens the risk to leadership challenges for Keir Starmer to come (May local elections the decider). It's a key variable for long end Gilts, with a new leader expected to be less committed to fiscal rules and could lead to steepening.
- **Policy:** We expect the BoE to be 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. But the core 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 March, June and September too. The data will however need to weaken in Q1 to justify the idea of a 3% terminal for markets.



GBP Rates

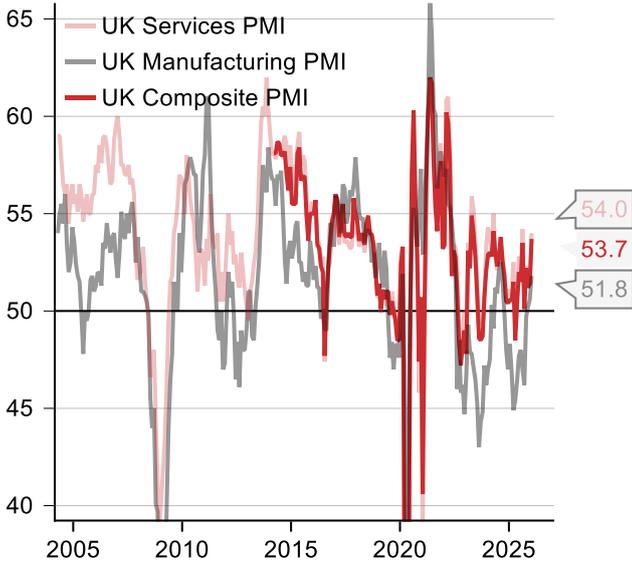
- **Duration:** February was a tough month for Gilts as UK political headlines and fears about Starmer stepping down depressed investor appetite. However, an unexpectedly dovish BoE brought a bid back to GBP rates. Given our view on the BoE path ahead, we see 10Y Gilts breaking the lower end of their 4.35-4.85% range. 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:** We expect the curve to remain range bound in coming months. Political uncertainty into the May elections is likely to stay, preventing any long-lasting easing in term premium. Moreover, the curve will have to balance the steepening that is set to happen if the BoE is pushed to cut more than expected with investors looking to buy dips on lower growth premium. The 30yr sector may outperform due to the decrease in long-end issuance that we expect will continue in FY26/27.
- **Swap Spreads:** The political headlines ensured a dip in swap spreads earlier in the month, but it seems like investors had some appetite to buy the dip and, in fact, Gilt ASW outperformed UST ASW this month to date. 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. But with lingering political risk (and a move further to the left on the cards), any rally into the May local elections may be tactical and short-lived.



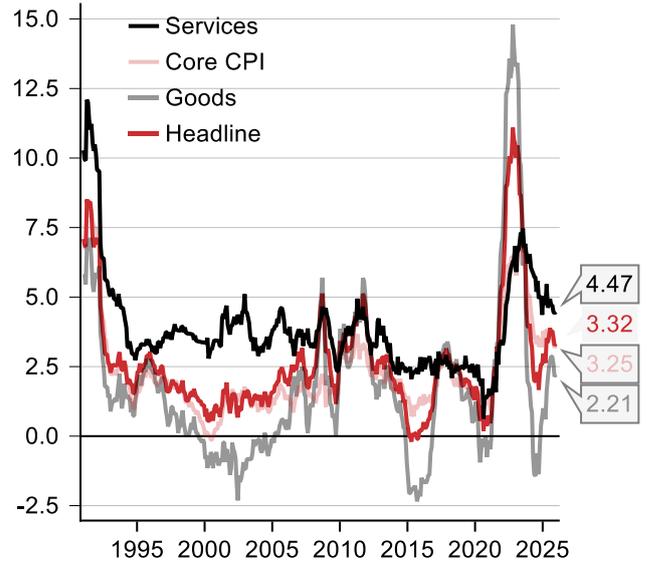
GBP FX

- **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 0.91 (Dec-26), 0.86 (Dec-27) putting GBP/USD at 1.34 (Dec-26), 1.45 (Dec-27). But GBP/USD bears should be aware that we are witnessing a short GBP position reduction in futures.
- **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 its fiscal term premium in long end rates; if suddenly the fiscal picture were to deteriorate it could lead to fresh GBP selling.

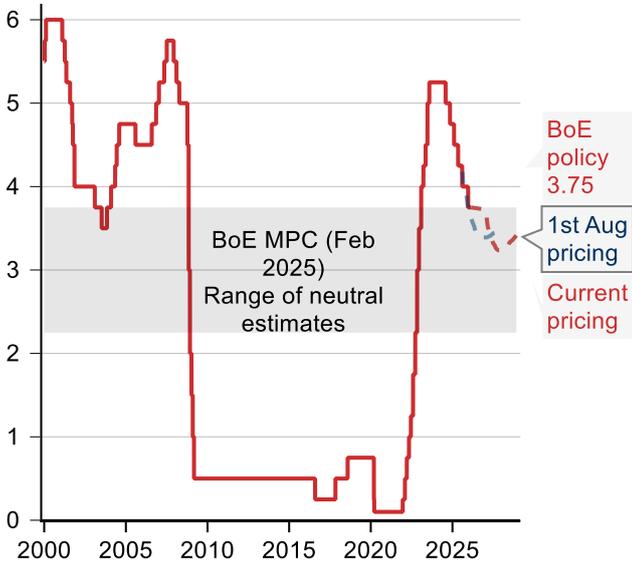
UK PMIs



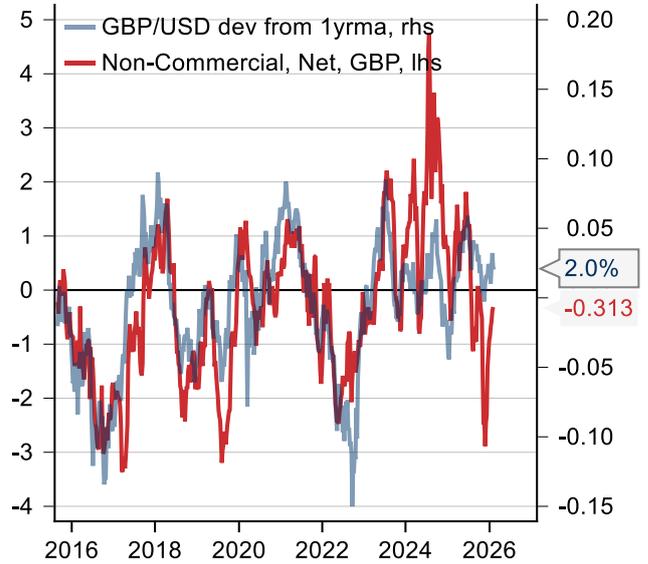
UK CPI



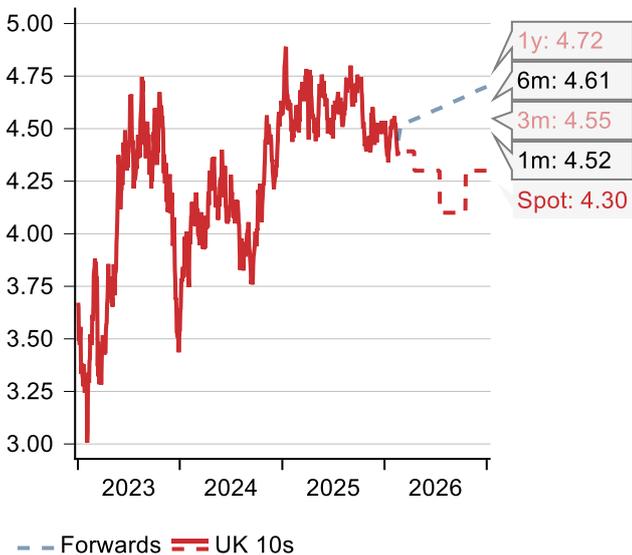
Bank of England (BoE) vs "neutral"



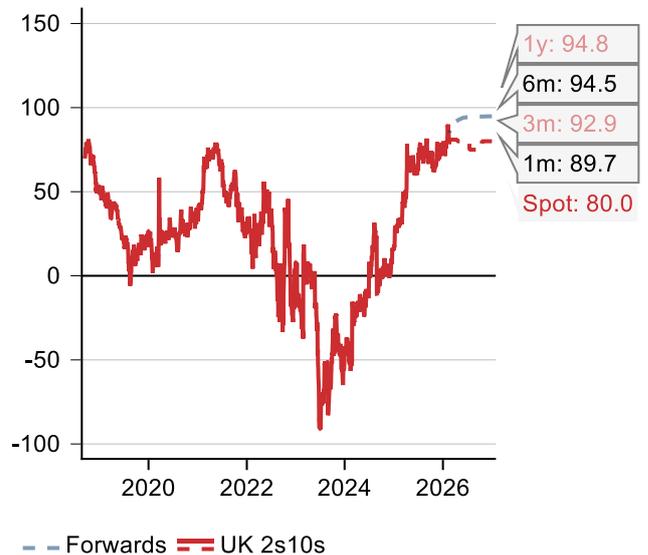
Net GBP/USD non-commercial positioning



UK 10s vs forwards



Gilts 2s10s vs forwards



Sources of all charts: Bloomberg, Macrobond (latest figures as of 19 February 2026)



JPY Policy

- **Growth:** GDP softened recently (0.2% y/y) and the output gap remains slightly negative (-0.4%). 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% and is set to drop sharply towards 1.5% if Tokyo CPI is a guide thanks to cooling rice prices and government subsidies on energy prices. Some analysts even pencil in CPI as low as 1.1% by end 2026. But will strong services and wages defy those predictions? Will Takaichi cut consumption taxes too?
- **Labour:** Japan's labour market remains near the historical tight, with the tankan survey suggesting employment conditions have only been tighter during the 1980s/90s bubble mania and job openings recently rebounded. Wage negotiations to drive another strong round of wage gains for 2026 allowing for further confidence from BoJ officials to raise rates.
- **Politics:** A large majority from the election and a stimulative budget from the Takaichi administration. The question is how much JPY and JGB weakness will the administration tolerate? And how quick will a consumption tax cut on food come?
- **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

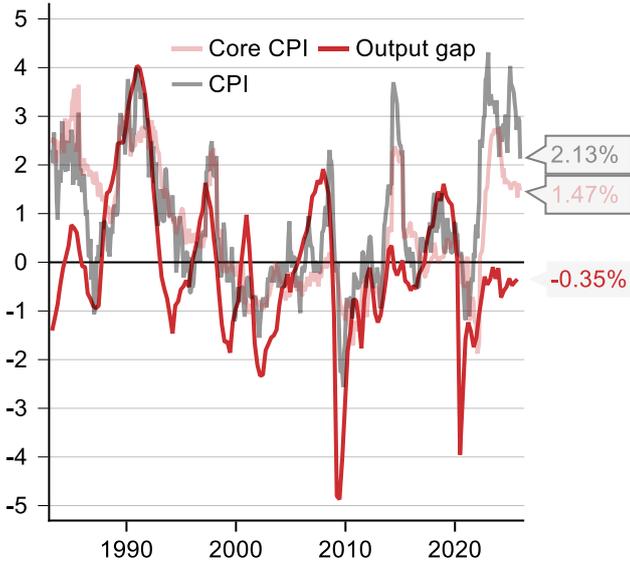
- **Duration:** Rate hike expectations for the BoJ are still alive and the question is now what the terminal rate is (1.5% or higher? We see it at 2%). While front-end JPY rates find out what the new terminal could be, the bearish pressure in JGBs will also remain. The consumption tax cut extension will 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 longer 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:** Following Takaichi's win, the curve has been flattening thanks to (mainly) foreigner investors buying long-term JGBs. We do think that steepening is more likely here as we think fiscal premium is likely to remain. We expect this steepening to continue into 10s particularly, as domestics see the 5Y point as "safe haven". The super long end is likely to remain more shielded too as foreigner investors buy the dip and, eventually, lifers, who have been largely absent throughout this year, come and buy.
- **Swap Spreads:** Swap spreads have found a bid after the general election risk dissipated. Super long-term swap spreads should continue to remain supported due to 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.



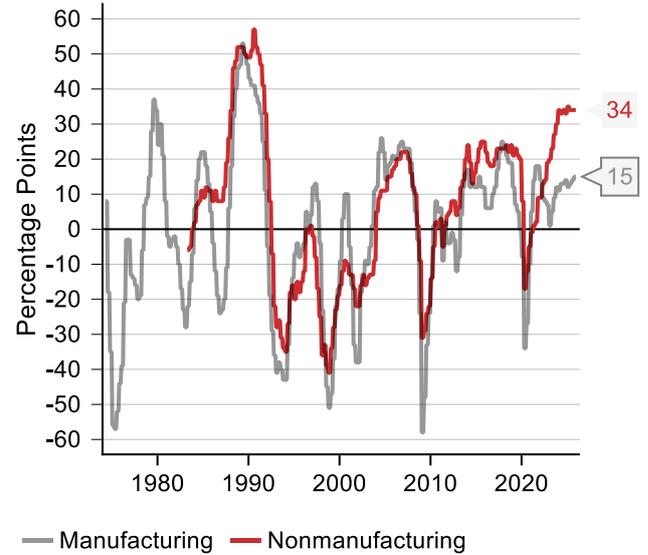
JPY FX

- **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 it becomes clear rates spreads matter for FX again. We expect **JPY strength to 147 by end 2026**.
- **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?

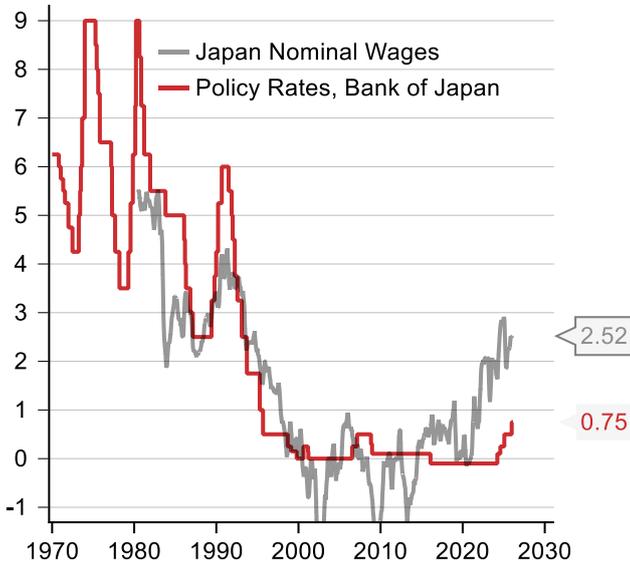
Japan: Output gap and inflation



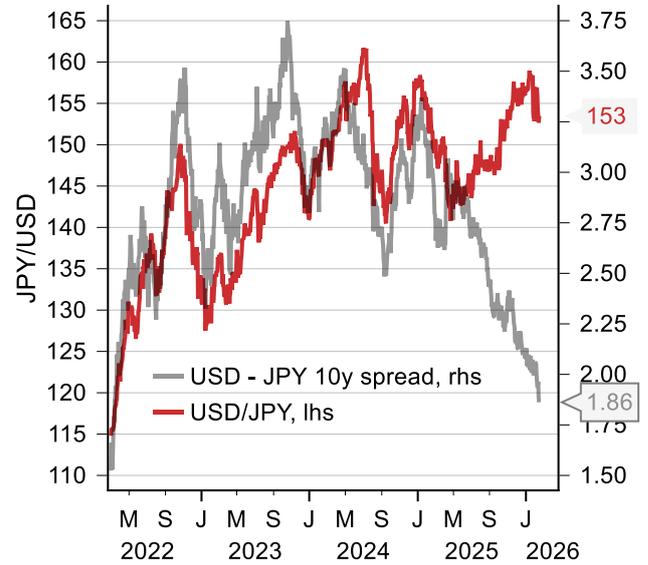
TANKAN, Business Conditions



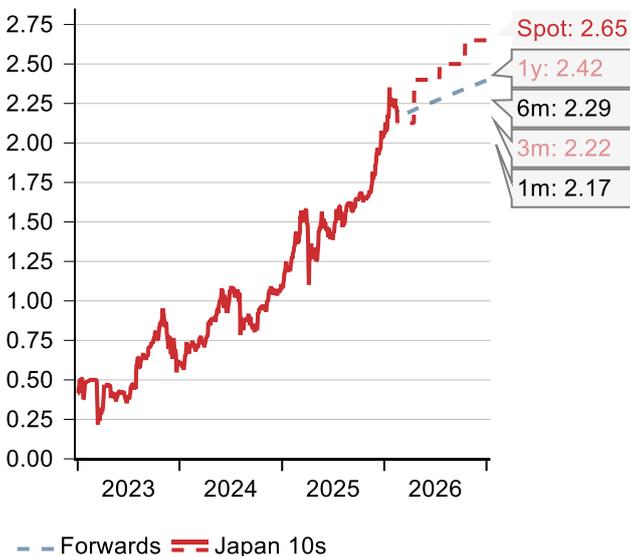
Japan Nominal Wages vs BOJ Policy



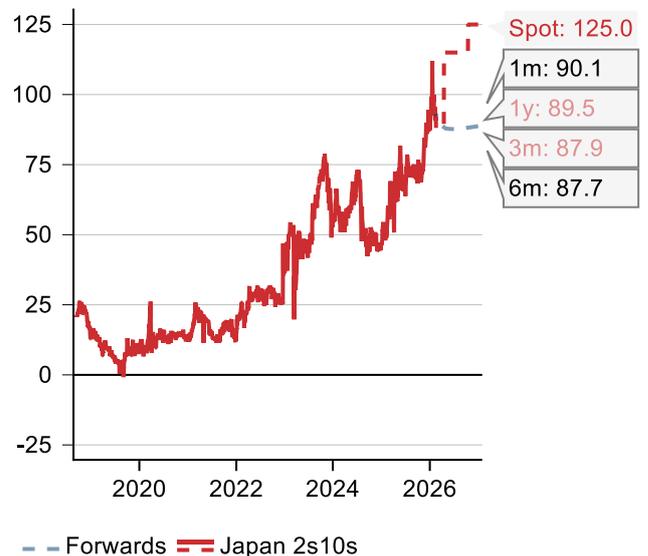
USD/JPY vs USD - JPY 10y spread



Japan 10s vs forwards



JGB 2s10s vs forwards

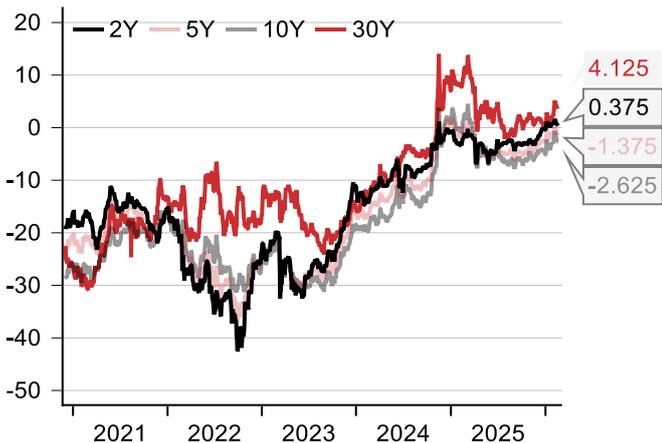


Sources of all charts: Bloomberg, Macrobond (latest figures as of 19 February 2026)



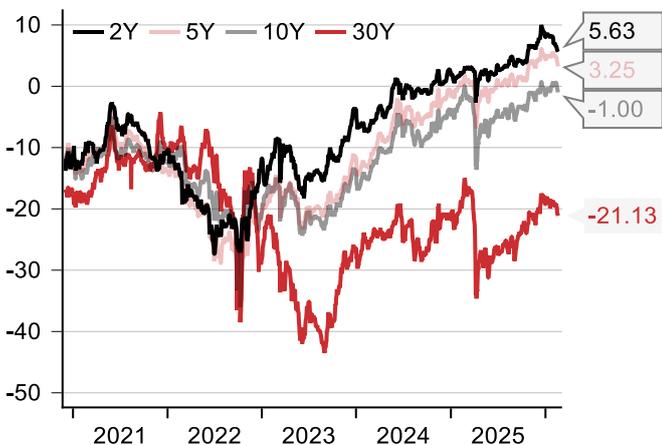
- The view:** We expect the dollar premium to remain subdued, with only temporary spikes in the very front end due to seasonal funding pressures. Ample USD liquidity, no QT from the Fed but bill purchases instead, and US deregulation should keep the dollar premium contained and the medium-term tightening theme intact in most XCCY basis spreads. Issuance-wise, 2025 was a stellar year for reverse yankees and reverse samurais. We are experiencing a busy start of the year Yankee issuance as corporates face increased funding needs and prefer to front-run hyperscalers, but with where basis spreads are trading, reverse yankees are making a comeback, which will slow down the paying momentum in XCCY.

EURUSD XCCY basis (bp)



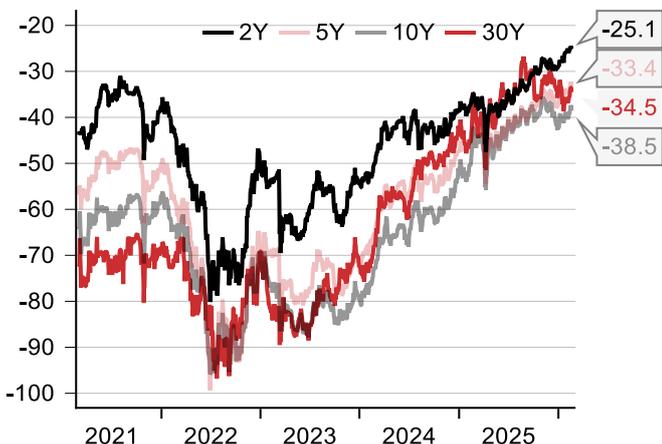
EUR: We expect the EURUSD XCCY basis curve to steepen in coming months, especially in the 5–7Y versus 30Y segment. This is driven by our bias for tighter EUR swap spreads into and through early 2026 (vs USD peers) as markets prepare for more German government issuance and US financial deregulation. The 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 19 February 2026)

Mizuho Key Forecasts

Policy rates		19-Feb	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		19-Feb	Mar-26	Jun-26	Sep-26	Dec-26	
USTs	2Y	3.39	3.60	3.75	3.85	3.80	
	5Y	3.58	3.80	4.00	4.25	4.15	
	10Y	4.02	4.20	4.40	4.70	4.60	
	30Y	4.67	4.80	5.05	5.35	5.25	
Germany	2Y	2.03	2.10	2.15	2.15	2.20	
	5Y	2.32	2.50	2.80	2.85	2.90	
	10Y	2.73	2.95	3.35	3.45	3.50	
	30Y	3.41	3.60	4.00	4.15	4.15	
UK Gilts	2Y	3.57	3.50	3.40	3.50	3.65	
	5Y	3.78	3.70	3.60	3.75	3.85	
	10Y	4.36	4.30	4.15	4.30	4.50	
	30Y	5.17	5.05	4.90	4.90	5.00	
JGBs	2Y	1.23	1.30	1.35	1.40	1.65	
	5Y	1.61	1.75	1.80	2.05	2.40	
	10Y	2.13	2.30	2.50	2.65	3.00	
	30Y	3.39	3.55	3.75	3.85	4.00	
FX		19-Feb	Mar-26	Jun-26	Sep-26	Dec-26	
EUR/USD		1.18	1.18	1.19	1.20	1.22	
USD/JPY		153	154	152	150	147	
GBP/USD		1.36	1.34	1.34	1.33	1.34	
EUR/GBP		0.87	0.88	0.89	0.90	0.91	
EUR/JPY		181	182	181	180	179	
GBP/JPY		208	207	203	200	197	
DXY		97	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 19 February 2026).

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