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CURRENCY REPORT

SEPTEMBER 2026

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AUGUST IN REVIEW
THE 'SLEEPY MONTH' PREVAILS

- Sharp pick-up in private sector activity
- Rates remain on hold
- Burnham whets voters' appetite
- Inflation threatened by the Iran war

The Flash PMI rises to 52.5

The Composite PMI rose to 52.5 in August, a four-month high, up from 52.2 in July, remaining above the 50 expansion threshold. Services continue to drive growth, while manufacturing is slowing but still expanding. The Services PMI reached 52.8, a 6-month high, supported by stronger demand, improving domestic conditions, tech investment, and favourable weather.

'Sticky' inflation concerns Huw Pill

Bank of England Chief Economist Huw Pill remains concerned about "sticky" inflation, particularly persistent domestic services inflation, strong wage growth, and second-round effects from past energy shocks. He argues these underlying pressures, alongside Brexit-related structural frictions, are slower to ease than headline inflation, posing a continued risk to the disinflation process.

Burnham 'hits the ground running'

Andy Burnham has launched a programme focused on cost-of-living support, high streets, and regional engagement. Measures include a £45 cut to domestic electricity bills from 1 October, funded by scrapping the digital ID plan. Burnham has also pledged to revive high streets, reduce business rates for pubs, strengthen council powers over vape and betting shops, and adopt a more flexible fiscal approach.

MPC members turn more hawkish

The Monetary Policy Committee is adopting a more hawkish stance, with increasing support for higher interest rates. Three members voted for a rate rise in July, up from two in June. Megan Greene cited the need to limit second-round inflation, Catherine Mann pointed to energy-price volatility, and Huw Pill argued for a rate hike to send a clear signal on inflation risks, highlighting a coordinated tightening bias.

SEPTEMBER WHAT TO WATCH
BURNHAM FACES FIRST CONFERENCE

- BoE MPC meets at a crucial time
- August inflation may sway a rate increase
- July GDP will shed light on Q3 expectations
- Labour's annual conference takes place

Divisions within the MPC may draw a rate hike

Divisions within the MPC raise the risk of a rate hike. A growing hawkish minority increases the chance the committee could tighten policy if inflation risks strengthen. The split reflects uncertainty over the inflation outlook and how forcefully policy should respond. As hawkish voices gain influence, markets are more likely to price in a future shift towards higher rates.

Inflation data is due the day before the MPC

Inflation data will be released the day before the MPC decision, making the timing significant. UK CPI for August 2026 is due on 16 September at 7:00 am, with the Bank Rate decision following the next day. The MPC will be responding to fresh inflation data, meaning any surprise in services CPI, core CPI or energy-related components could influence the voting balance.

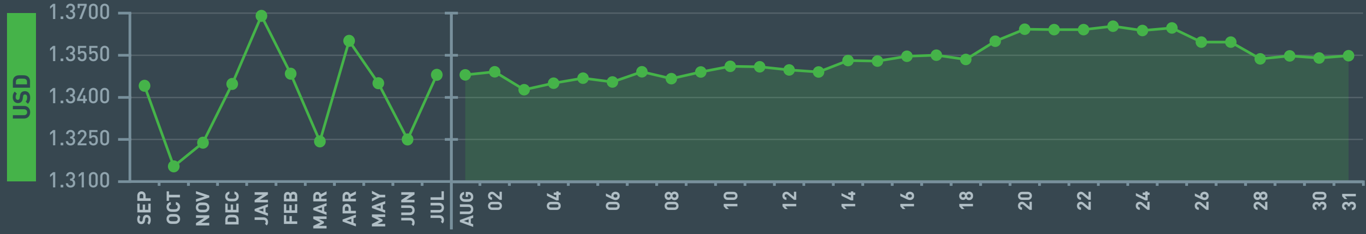
Healey wants to see higher growth

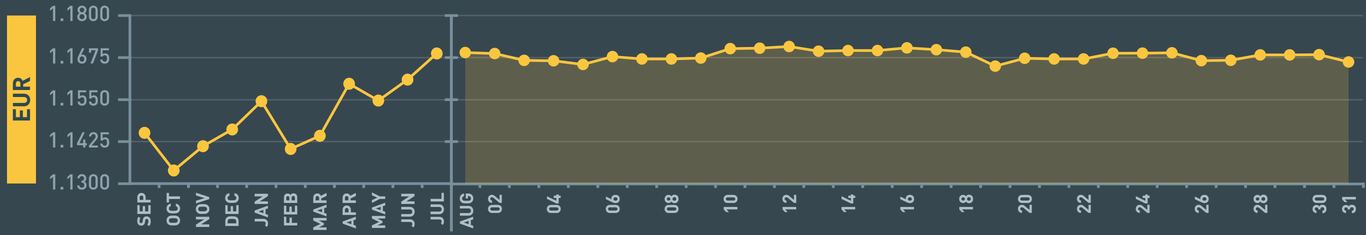
Chancellor John Healey has made economic growth a central priority. He is reshaping the Treasury so every department supports growth, combining fiscal discipline, public investment and procurement that backs UK industry. His priorities are fiscal discipline, stronger regional growth, business investment, support for domestic industry, and improving household affordability through devolution.

Burnham will want to set the tone in Liverpool

The Labour Party Conference in Liverpool will be Andy Burnham's first major opportunity as Prime Minister to define his leadership and set the direction of his government. Liverpool, a Labour heartland, reflects his priorities of regional revival, devolution and public services. The conference also provides a platform to establish his governing style and shape public expectations early in his premiership.

GBP INTERBANK RATES





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SEPTEMBER 2026 : KEY EVENTS

4 FRIDAY
Construction PMI

8 TUESDAY
BRC Retail Sales Monitor y/y

10 THURSDAY
RICS House Price Balance

11 FRIDAY
Construction Output m/m
GDP m/m
Index of Services 3m/3m
Industrial Production m/m
Manufacturing Production m/m
Goods Trade Balance

15 TUESDAY
CBI Industrial Order Expectations
Average Earnings Index 3m/y
Claimant Count Change
Unemployment Rate

16 WEDNESDAY
Core CPI y/y
RPI y/y
CPI y/y
PPI Input m/m
PPI Output m/m

17 THURSDAY
Monetary Policy Summary
MPC Official Bank Rate Votes
Official Bank Rate

18 FRIDAY
GfK Consumer Confidence
Retail Sales m/m

23 WEDNESDAY
Flash Manufacturing PMI
Flash Services PMI

USD

AUGUST IN REVIEW
TRUMP'S POPULARITY SINKS

- Negative Payrolls shock the market
- CPI inflation remains stable
- Borrowing creates bond market havoc
- FOMC minutes point to a September hike

SEPTEMBER WHAT TO WATCH
HOW CAN THE IRAN WAR CONCLUDE?

- The FOMC may be forced to raise rates
- August's payroll data will be pivotal
- Inflation data is unlikely to sway the FOMC
- Q2 growth data will set the markets' Q3 expectations

July's NFP was a shock to the market

The July 2026 Nonfarm Payrolls report showed a 23,000 job loss, the first negative reading of the cycle, triggering broad market repricing. Economists had expected +80,000 jobs, making the decline a significant surprise. Revisions deepened the weakness, with May and June revised to a combined 103,000 jobs lost and June's gain cut from +57,000 to +20,000. Markets concluded the labour market had been weakening for months. Combined with softer wage growth and lower participation, the report pointed to a clear loss of momentum.

Inflation is stable, but PCE is a worry

Inflation appears stable, but PCE remains elevated, highlighting persistent price pressures. July CPI eased to 3.3% YoY, while headline PCE held at 3.7% YoY and core PCE remained 3.3% YoY, both well above the Fed's 2% target. The gap between moderating CPI and stubborn PCE continues to fuel concern for markets and policymakers.

Bond yields reach a two-decade high

Long-term Treasury yields have climbed to their highest levels since 2007–2008, driven by a combination of fiscal and structural pressures. Key drivers include the rapid growth in US government debt, heavy Treasury issuance, strong AI-related corporate borrowing, and ongoing inflation and geopolitical risks.

Can the economy continue to grow?

The U.S. economy is expected to keep growing, but at a slower and more uneven pace than the post-pandemic recovery. Growth remains highly dependent on policy, energy prices and inflation. Forecasts from the Federal Reserve, IMF and University of Michigan project GDP growth of around 2–2.4% in 2026, before moderating further in the following years.

The Fed and Treasury are dislocating

The Fed and U.S. Treasury are pulling in opposite directions. The Fed is draining liquidity through quantitative tightening (QT), while the Treasury is issuing record levels of debt. As federal debt nears $40 trillion, Treasury supply is rising just as the Fed shrinks its balance sheet and liquidity support. Dealer capacity has not kept pace, leaving markets more fragile. The result is wider bid-ask spreads, settlement stress, and sharp yield swings as one institution adds duration while the other removes liquidity.

Was the July payroll data a 'blip'?

The July 2026 payroll decline does not look like a one-off. While seasonal factors can distort July data, the broader trend points to a slowing labour market. Revisions remain weak, wage growth has softened, participation is falling, and hiring momentum has eased for months. Although unemployment fell to 4.1%, this reflected slower labour-force growth rather than stronger employment, suggesting increasing fragility.

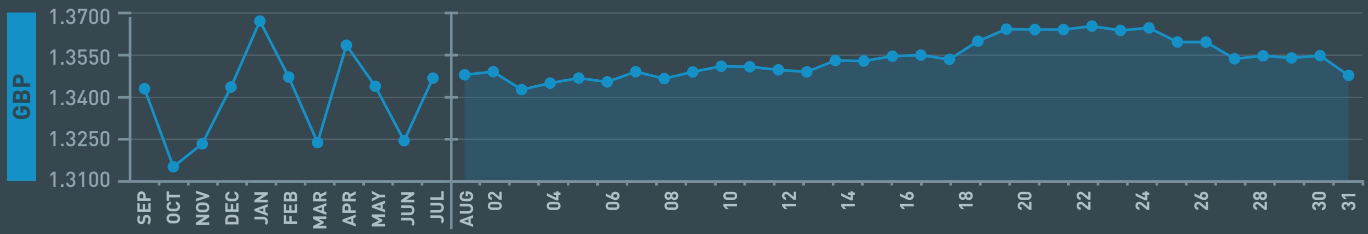
Will inflation fall enough to stop the Fed?

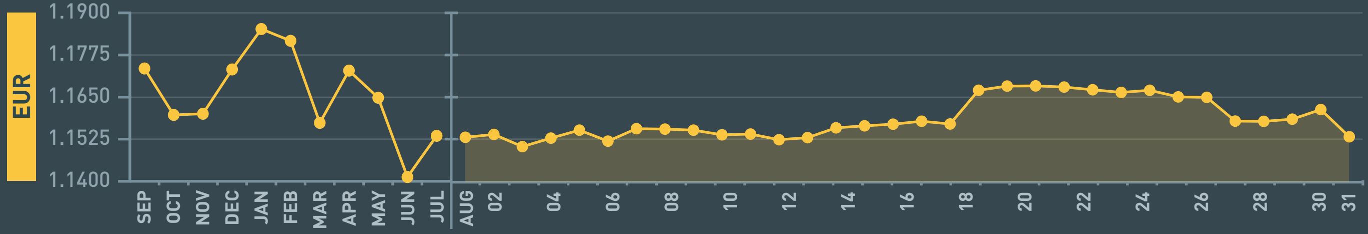
Inflation has eased enough for markets to expect a September Fed pause, with a 71% probability of no change. However, PCE inflation remains at 3.7% and core PCE at 3.3%, both above target. While softer CPI supports holding rates, sticky PCE limits confidence that inflation is under control. Some FOMC members continue to argue that further tightening may still be needed.

Will economic 'war' beat bombing?

Economic pressure and military action are very different tools. Bombing is immediate and destructive but risks civilian casualties and regional escalation. Sanctions and financial isolation work more slowly, often hurting ordinary people while weakening a country's economy and military capacity over time. Neither approach is cost-free, and success depends on whether the goal is changing regime behaviour, improving regional stability, or limiting human suffering.

USD INTERBANK RATES





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SEPTEMBER 2026 : KEY EVENTS

1 TUESDAY
- Construction Spending m/m
- ISM Manufacturing PMI
- JOLTS Job Openings

2 WEDNESDAY
- ADP Non-Farm Employment

3 THURSDAY
- Trade Balance
- Final Services PMI
- ISM Services PMI
- ISM Services PMI
- Unemployment Claims

4 FRIDAY
- Unemployment Rate
- Average Hourly Earnings m/m
- Non-Farm Employment Change

10 THURSDAY
- Core PPI m/m
- PPI m/m

11 FRIDAY
- Federal Budget Balance
- CPI m/m
- Core CPI m/m
- CPI y/y

15 TUESDAY
- Empire State Manufacturing Index

16 WEDNESDAY
- Retail Sales m/m
- Business Inventories m/m
- Core Retail Sales m/m
- FOMC Statement
- Federal Funds Rate
- FOMC Press Conference
- FOMC Economic Projections

17 THURSDAY
- Building Permits
- Housing Starts
- Philly Fed Manufacturing Index

18 FRIDAY
- Industrial Production m/m

23 WEDNESDAY
- Flash Manufacturing PMI
- Flash Services PMI

25 FRIDAY
- Durable Goods Orders m/m

29 TUESDAY
- CB Consumer Confidence

30 WEDNESDAY
- Personal Spending m/m
- Core PCE Price Index m/m
- Final GDP q/q

EUR

AUGUST IN REVIEW
BUSINESS ACTIVITY IS RESILIENT

- Activity is at its strongest since Q4'25
- Inflation is forcing the ECB's hand
- Lane sees food inflation as a concern
- Is the Eurozone too conflicted?

Business activity is solid despite Iran

Despite the Iran-related energy shock, European business activity and sentiment remain resilient, supported by stronger-than-expected data, solid earnings, and clear ECB guidance. Equities are near record highs, with strong STOXX 600 inflows reflecting investor confidence. Economic data continue to beat expectations, while rising input costs have yet to derail activity. The ECB's steadier communication has also reassured markets despite persistent inflation.

Inflation refuses to fall 'naturally'

Inflation remains near 3% and is edging higher. Consumer prices rose to 2.9% in July from 2.8% in June, with energy inflation reaching 10% and services at 3.3%. The ECB says the Iran conflict has increased inflation risks through higher energy costs, which feed into food, goods, and services. Forecasts have been revised higher, suggesting inflation is not easing naturally.

Food prices are worrying Lane

ECB Chief Economist Philip Lane expects food inflation to become a major driver of inflation next year, driven by energy costs, weather shocks, and rising commodities. Wheat, maize, and rice prices are already rising, while El Niño could add further pressure. Companies must decide whether to pass higher costs to consumers or absorb them through lower margins, potentially weakening activity.

Too many cooks?

Austrian Central Bank Governor Martin Kocher argues that differing views within the ECB's Governing Council are normal and not the source of policy concerns. Markets respond to the ECB's message rather than its size. However, references to Council "heterogeneity" often unsettle markets because they can signal underlying economic concerns.

SEPTEMBER WHAT TO WATCH
HOW HAWKISH IS THE ECB?

- The rate decision will be crucial
- Flash CPI may promote a hawkish shift
- Is Germany on the way back?
- Can the business climate keep rallying?

Just how influential is Schnabel?

Isabel Schnabel is highly influential, overseeing ECB market operations, balance-sheet strategy and liquidity management. She is also the Governing Council's most forceful hawk, meaning her comments can move markets significantly. Schnabel controls the tools that directly influence markets, including QE, refinancing operations and the ECB's €5.6 trillion balance sheet. While Lagarde has greater political influence, Schnabel is more market-focused; both play distinct roles that would be difficult to interchange.

What will happen to Inflation?

Eurozone inflation is likely to remain elevated for longer, falling gradually rather than smoothly towards 2%. Inflation is trending lower but remains around the high-2s/low-3s, leaving the ECB cautious about cutting rates quickly. Policymakers will want clear evidence that inflation is sustainably converging towards target rather than responding to temporary shocks. As a result, rates are likely to fall more slowly than markets expect.

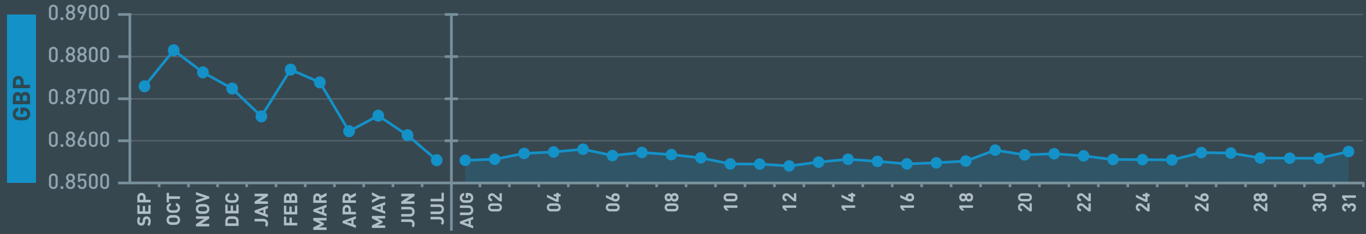
Strong German data will support the economy

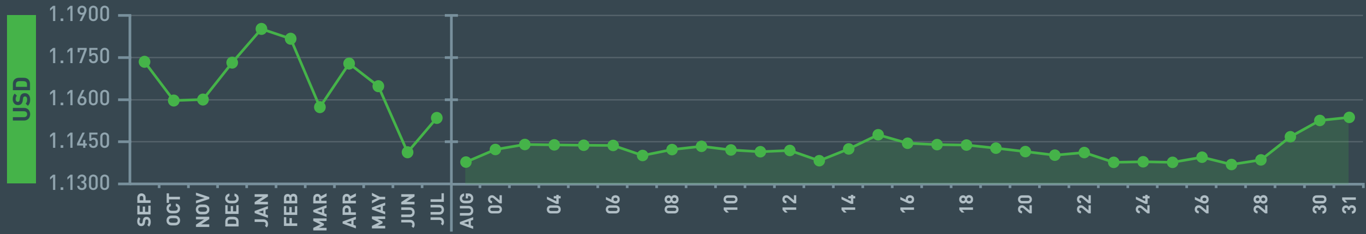
Stronger German data reduces recession risks and provides a floor for the wider eurozone recovery. Improvements in industrial orders, manufacturing and business sentiment can stabilise PMIs, strengthen supply-chain confidence and support ECB growth expectations. However, Germany still faces high energy costs, weak construction, soft domestic demand and structural problems in autos and chemicals. Stronger data can help avoid a downturn, but does not guarantee a strong recovery.

Core Business Data will shape the outlook

Leading business indicators such as IFO, ZEW, PMIs, industrial orders and ECB surveys will increasingly shape the eurozone growth and inflation outlook. They provide earlier signals than GDP or employment, particularly on pricing, input costs and wages. Investment and machinery orders will also determine the pace of growth. Services remain in expansion, but momentum is easing as higher food and energy costs weigh on consumers.

EUR INTERBANK RATES





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SEPTEMBER 2026 : KEY EVENTS

1 TUESDAY
- Final Manufacturing PMI
- French Final Manufacturing PMI
- German Final Manufacturing PMI
- Italian Manufacturing PMI
- Spanish Manufacturing PMI
- Unemployment Rate

3 THURSDAY
- Final Services PMI
- French Final Services PMI
- German Final Services PMI
- PPI m/m

4 FRIDAY
- Retail Sales m/m
- German Factory Orders m/m

7 MONDAY
- German Industrial Production m/m
- Sentix Investor Confidence

8 TUESDAY
- French Trade Balance
- German Trade Balance

9 WEDNESDAY
- French Industrial Production m/m

10 THURSDAY
- German Final CPI m/m
- ECB Press Conference
- Main Refinancing Rate
- Monetary Policy Statement

14 MONDAY
- French Final CPI m/m

15 TUESDAY
- Trade Balance
- ZEW Economic Sentiment

16 WEDNESDAY
- Industrial Production m/m

17 THURSDAY
- Final Core CPI y/y
- Final CPI y/y

18 FRIDAY
- German PPI m/m

22 TUESDAY
- Consumer Confidence

23 WEDNESDAY
- French Flash Manufacturing PMI
- French Flash Services PMI
- German Flash Manufacturing PMI
- German Flash Services PMI

24 THURSDAY
- German Ifo Business Climate

25 FRIDAY
- German GfK Consumer Climate
- M3 Money Supply y/y

GLOBAL

AUGUST IN REVIEW

AUSTRALIA - AUSTRALIAN DOLLAR

Unemployment rises to 4.5%

Australia's unemployment rate has risen to 4.5%, and the data show a clear cooling in the labour market rather than a one-off fluctuation. This shift matters because it directly influences the Reserve Bank of Australia's (RBA) inflation outlook and rate-path decisions.

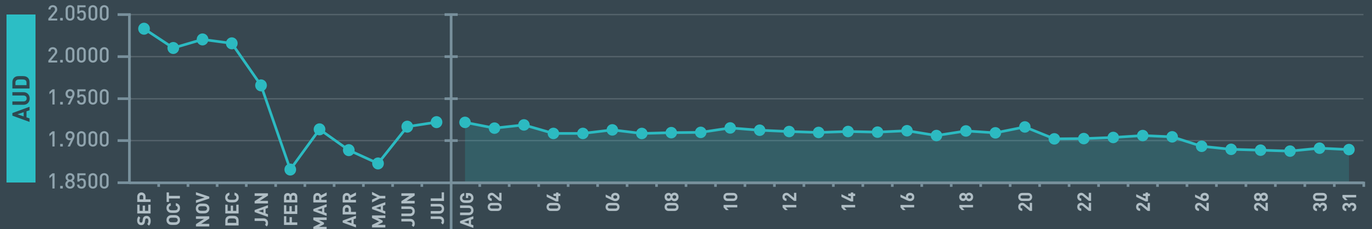
ASX earnings revealed sectoral divergence

ASX earnings are diverging markedly across sectors. Resources and some defensives are reporting solid results, while consumer discretionary, financials, and parts of technology are weakening. This divergence is shaping the broader Australian macro narrative: strong commodity income versus soft household demand.

Inflation pressures remain elevated

Australia's inflation isn't falling fast enough, with several components re-accelerating or remaining sticky. The RBA's path to 2–3% inflation is proving slower and more uneven than expected. Even after earlier cooling, the July/August readings show headline inflation stuck in the high-3s; core inflation remaining above 3%; services inflation stubborn and broad-based; and non-tradables rising due to rents, insurance, and utilities, while goods inflation is stabilising but not falling sharply. This is not the profile of an economy gliding back to target.

AUD INTERBANK RATES



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AUGUST IN REVIEW

CANADA - CANADIAN DOLLAR

‘Hats off’ to Mark Carney

Carney has become one of the few figures whose ideas genuinely shift the policy conversation across the UK, EU, and G7. Three areas stand out: his sovereign-wealth-fund push has reshaped the UK debate; his climate-finance architecture is now global; and he remains one of the most trusted macro thinkers. A major plus is that Carney has repeatedly stood up to Donald Trump, openly and with unusually forceful pushback for a Canadian Prime Minister.

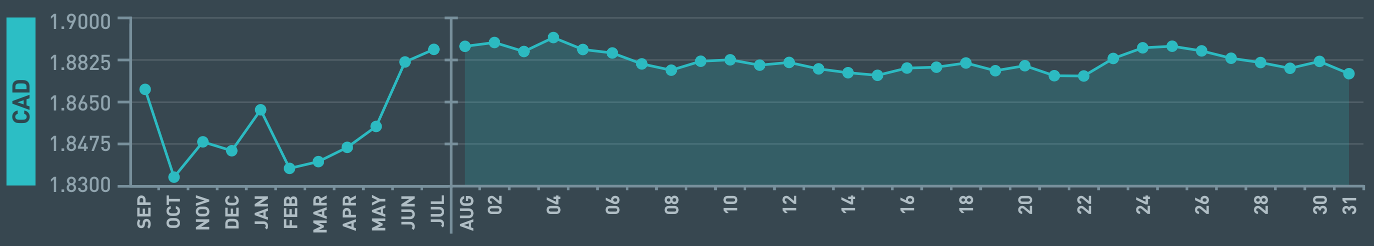
Labour-market and wage signals softened

Canada’s labour market is no longer tight: job creation has flattened, vacancies have risen only modestly, and wage growth is easing. This is exactly the pattern you’d expect in a cooling economy. Statistics Canada’s June payroll data show employment was “virtually unchanged”, rising by only 4,800 jobs after a much stronger May release. Manufacturing, accommodation, retail, and professional services all shed workers, a broad sign of softening demand. Weekly wages rose by 3.41%, reaching $1,344.

Q2 GDP depicts slowing growth

Q2 GDP is tracking around 3.4% annualised, well above the Bank of Canada’s 2.5% forecast. But this strength is not a sign of a healthy, accelerating economy; it’s the result of one-off boosts and a rebound from earlier weakness. Reuters reports Q2 growth at 3.4%, the strongest in over three years, driven by oil & gas and temporary factors such as the FIFA World Cup and delayed maintenance. Canadian economists note the rebound is “at least temporary” and warn of persistent uncertainty and geopolitical headwinds. The Bank calls the momentum “remarkable but likely temporary,” emphasising excess supply and weak underlying fundamentals. So the headline number is strong, but growth is slowing beneath the surface.

CAD INTERBANK RATES



GLOBAL

AUGUST IN REVIEW

JAPAN - JAPANESE YEN

Intervention provides temporary solace

Japan spent a record ¥15.4 trillion ($96.5bn) between July 30 and August 26 to support the yen, including coordinated action with the U.S. and South Korea. The yen jumped from around 163 per USD to 155 after the July 30–31 intervention. After the August 2 joint intervention, it held below 157, well off the 40-year low near 164. Reuters notes that recent interventions have been short-lived, causing only a brief rebound before the yen resumes weakening. This pattern has repeated through 2024–2026: April–May 2026: the yen jumped to 155.5 after intervention, then slid back. July 2026: the yen climbed from 163 to 157, then stabilised around 159-160. Intervention buys time, but does not fix the underlying issue.

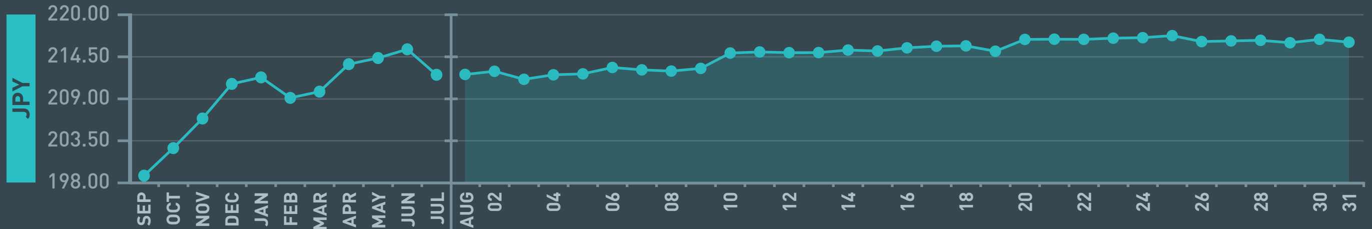
Private sector growth provides momentum

Japan's private sector is expanding at its fastest pace since February, with manufacturing and services both contributing to a solid, broad-based upswing. This momentum is strong enough to lift near-term GDP expectations.

Supply chains remain fractured

Structural labour shortages, capital-investment bottlenecks, and external shocks such as Middle East energy disruptions strain Japan's supply chains. These fractures are now a central constraint on Japan's growth.

JPY INTERBANK RATES



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AUGUST IN REVIEW

GEOPOLITICAL AND ECONOMIC FACTORS

The currency market in August

Major and commodity FX pairs in August showed a clear pattern: broad USD strength early in the month, a mid-month reversal after the US Treasury bond buyback announcement, and commodity-linked currencies outperforming thanks to surging energy prices.

USD	Firm overall but lost momentum mid-month, ending August less dominant than it began.
EUR	Saw mild support early in August but lost momentum later, finishing the month softer.
GBP	Broadly stable but lacked strong catalysts, under performing commodity-linked peers.
JPY	Extremely volatile, with a sharp early rebound followed by renewed weakness.
CAD	The strongest G10 currency in August, buoyed by surging oil.

The currency market in September

Major and commodity FX pairs are expected to diverge sharply in September, driven by widening rate differentials, shifting inflation expectations, and four major Central Bank meetings (ECB 10 Sept, Fed 16 Sept, BOE 17 Sept, BOJ 18 Sept). Markets and economists expect the AUD to be the strongest, the JPY the weakest, EUR and GBP firmer, USD mixed, and CAD supported by commodities. Rate divergence is the dominant driver.

GBP/EUR FOR PROPERTY BUYERS

When to Lock In Your Exchange Rate

For buyers who would rather know their sterling cost in advance, one option is to lock in an exchange rate for a property purchase using a forward contract. That can remove a significant source of uncertainty...

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