

The demise of the dollar ...

... and DM FX divergence

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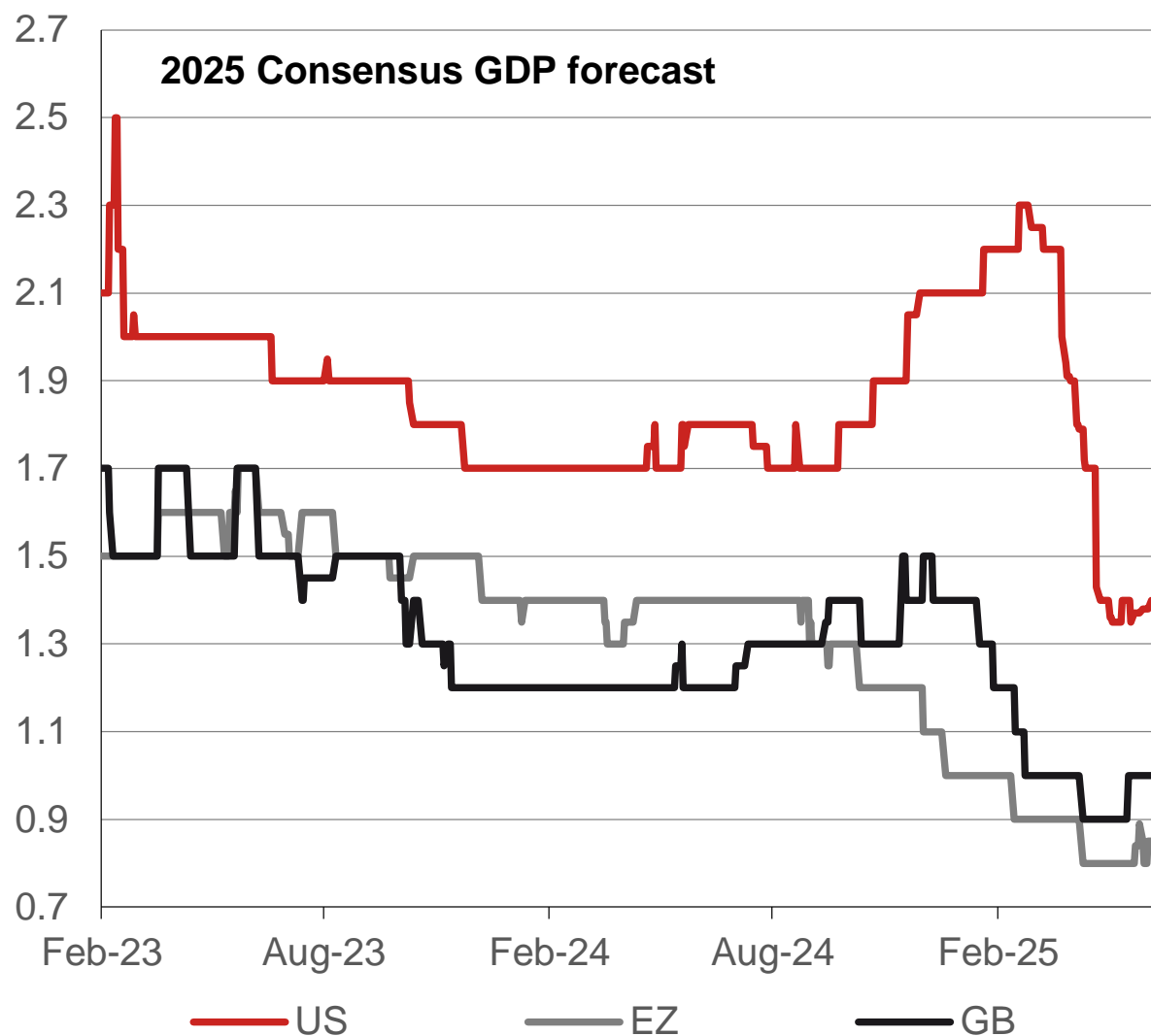
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G10 FX strategy – key views and themes

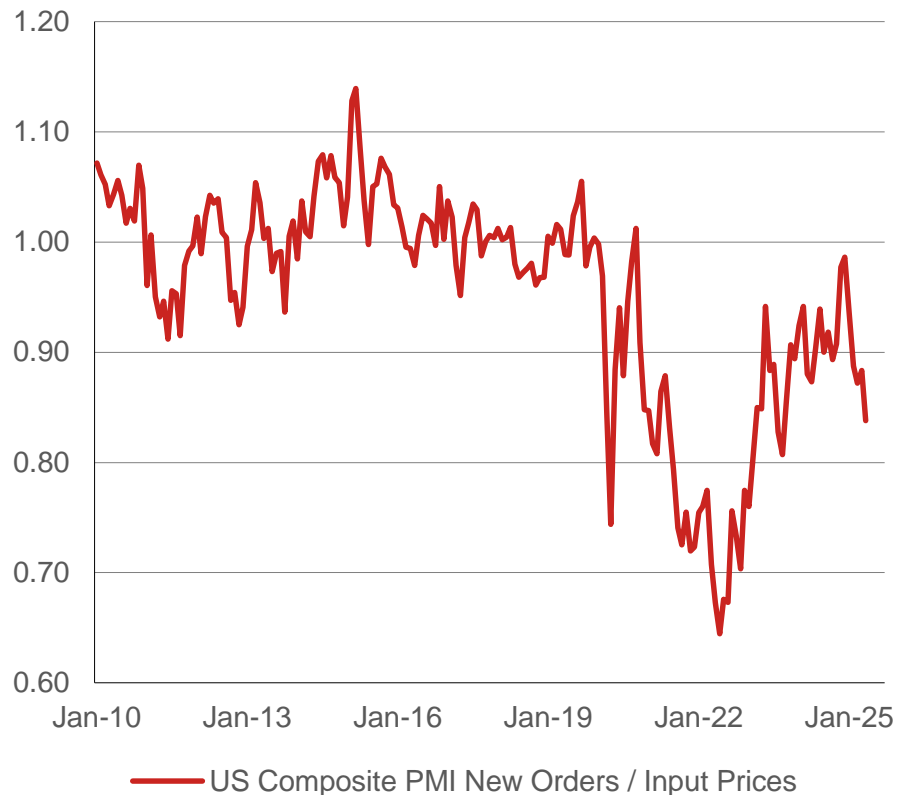
- **USD cyclical depreciation to continue – c5% more to go**
 - Growth convergence from extremely divergent expectations can continue
 - Less scope for sizable capital inflows to the US / modest outflows possible
 - Risk of greater USD selling for FX hedging purposes
- **High conviction directional trade ideas**
 - **Short USD/JPY** – target 135 (entry 144.90, 6 June 2025)
 - **Long EUR/GBP** – target 0.8750 (entry 0.8430, 6 June 2025)
 - **Long EUR/CHF** – target 0.9650 (entry 0.9340, 9 May 2025)
 - **Long NZD/CAD** – target 0.8520 (entry 0.8240, 30 May 2025)
 - **Long NOK/SEK** – target 0.9650 (entry 0.9340, 9 May 2025)

Normalisation of expected US growth exceptionalism

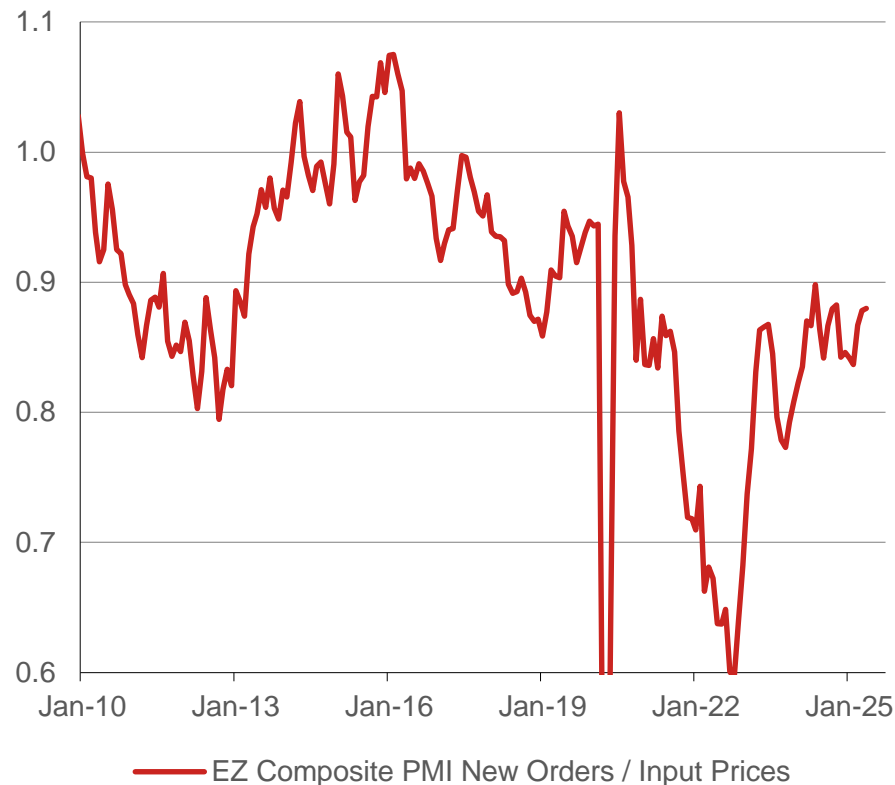


US policy choices creating stagflation risks

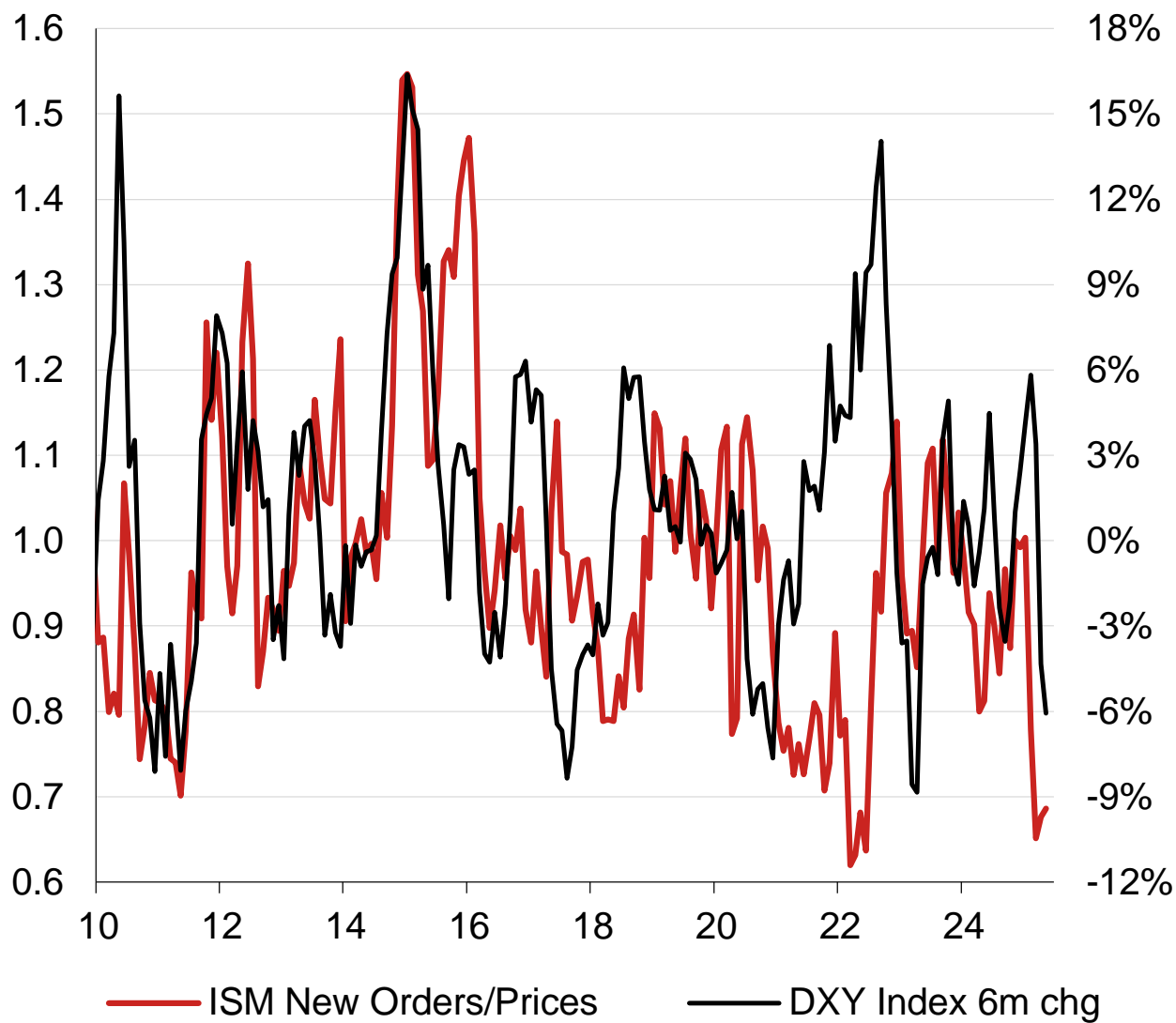
US new orders have declined relative to prices...



...but in the euro area orders have held up much better

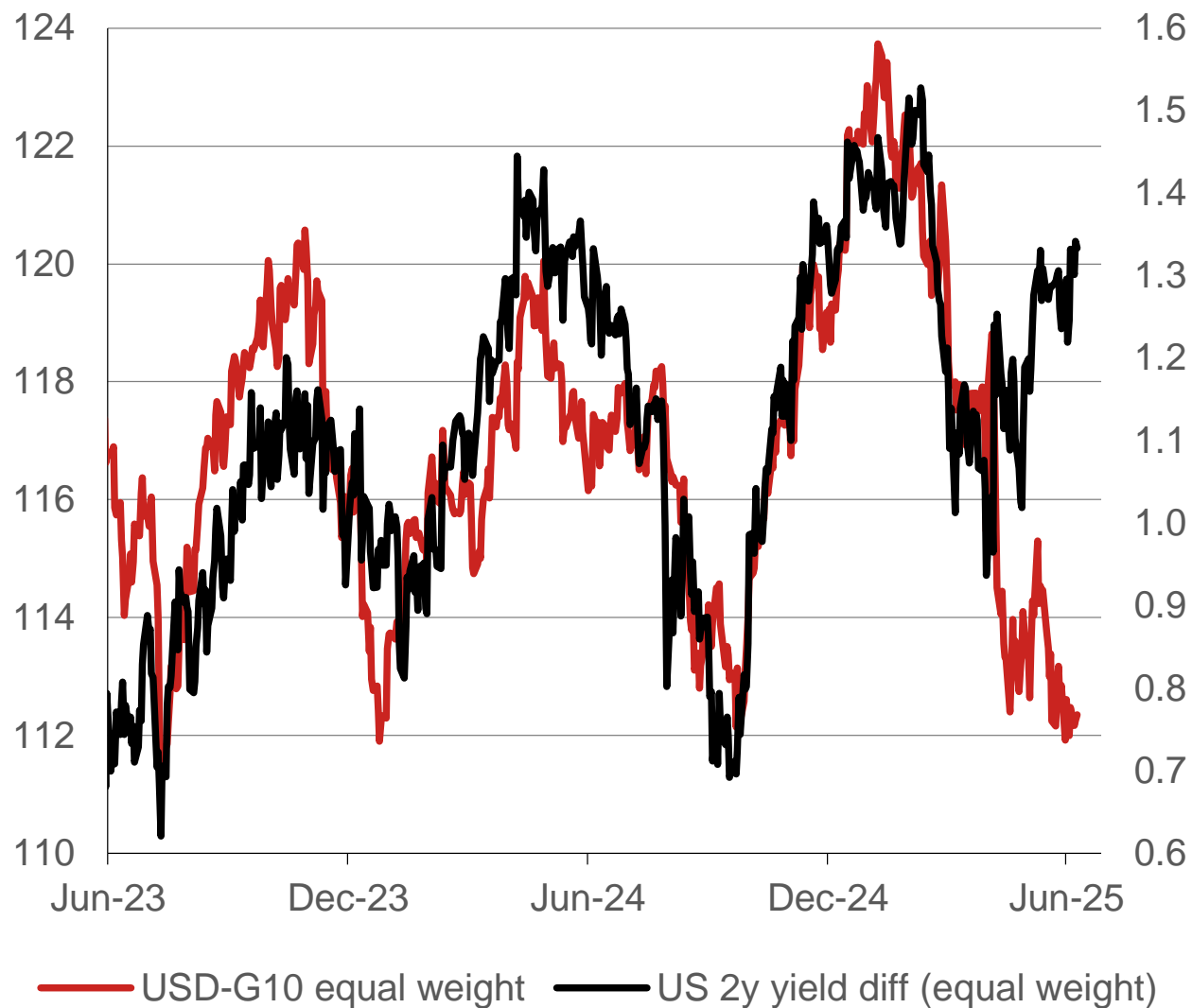


US stagflation risks weigh on USD

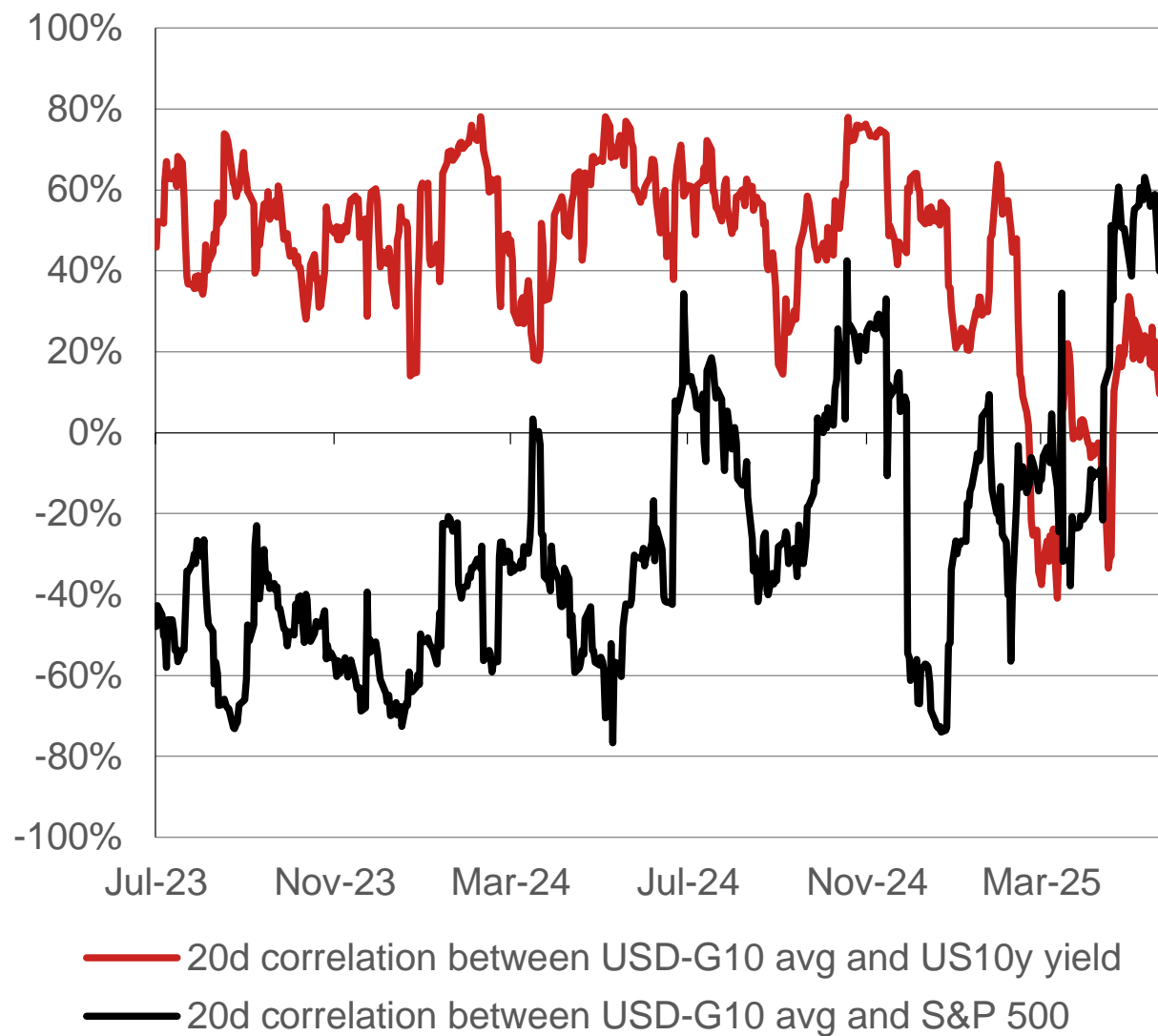


Source: Bloomberg, Nomura

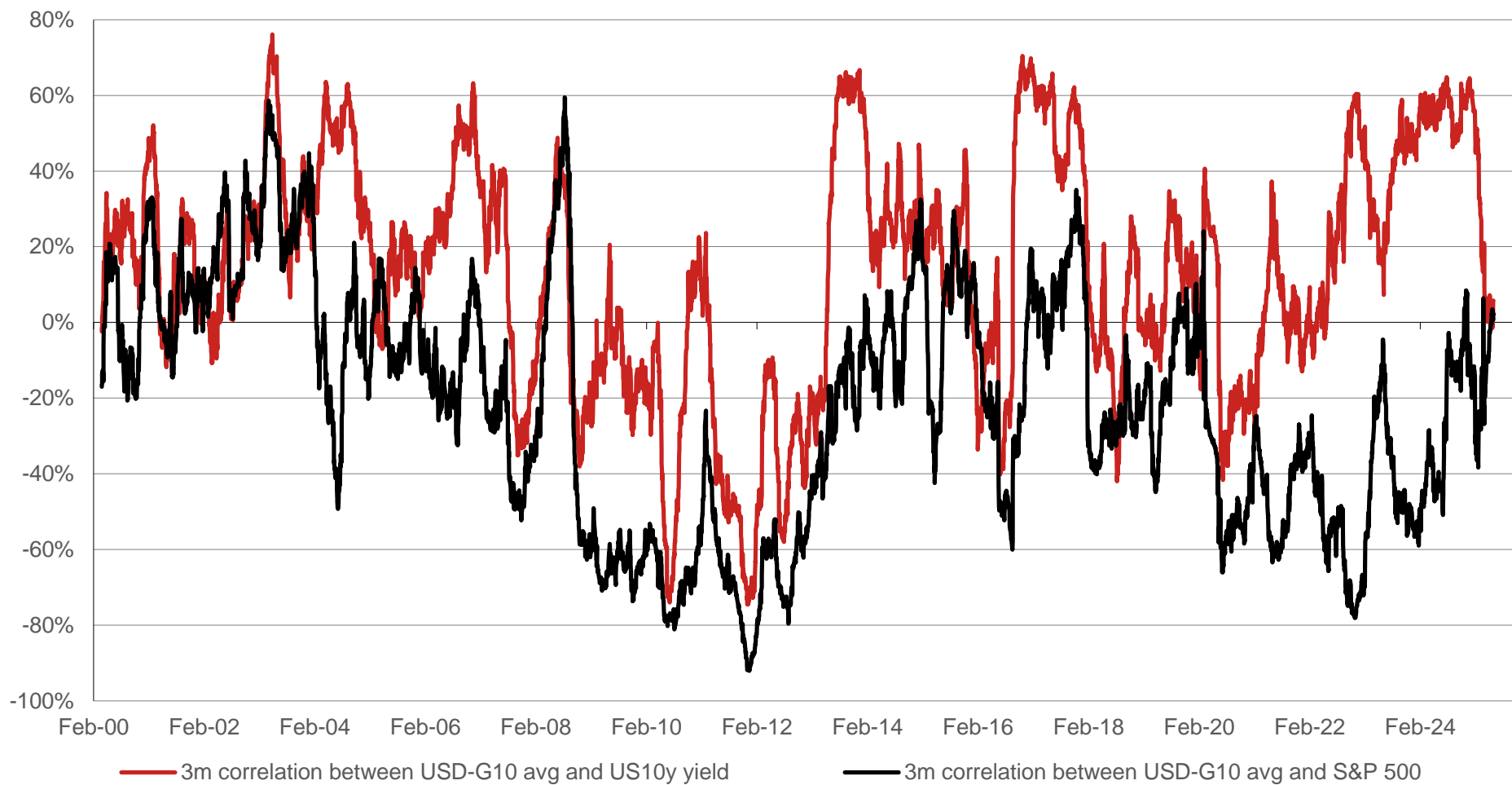
Yield movements no longer the dominant USD driver ...



... but USD correlations with other assets have flipped



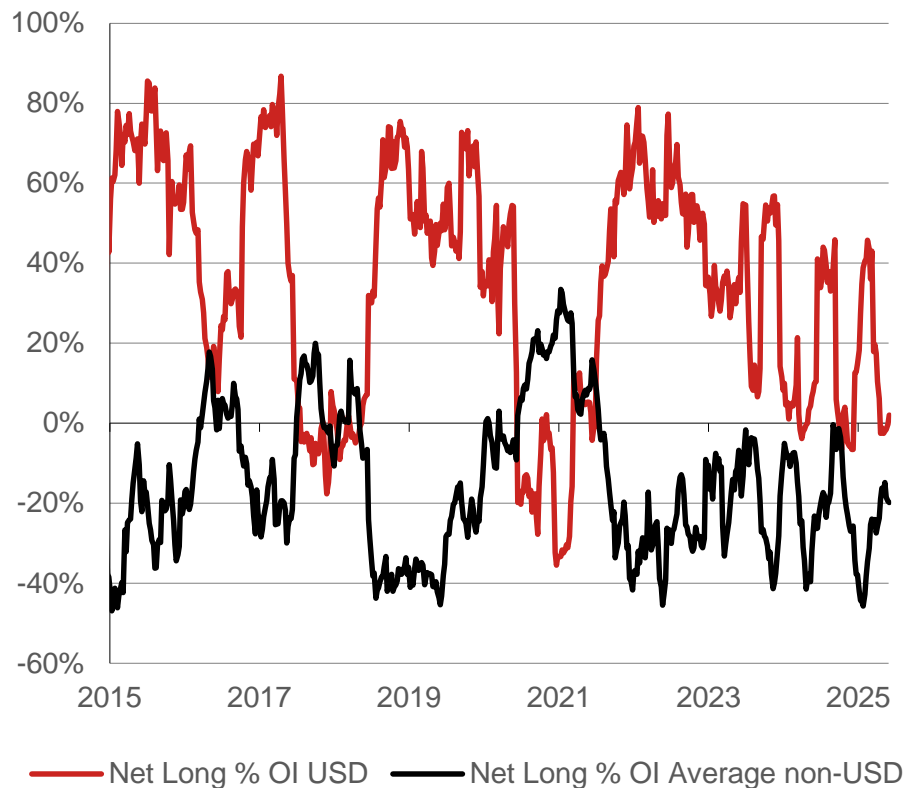
Positive USD-equity correlation is rare



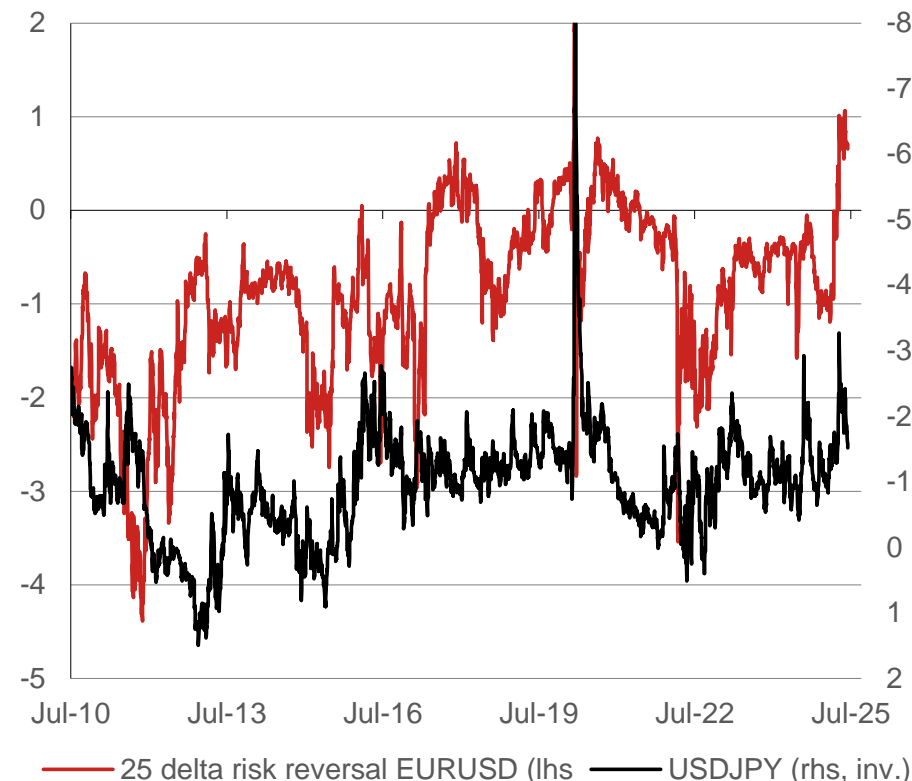
Source: Bloomberg, Nomura

How short USD is the market?

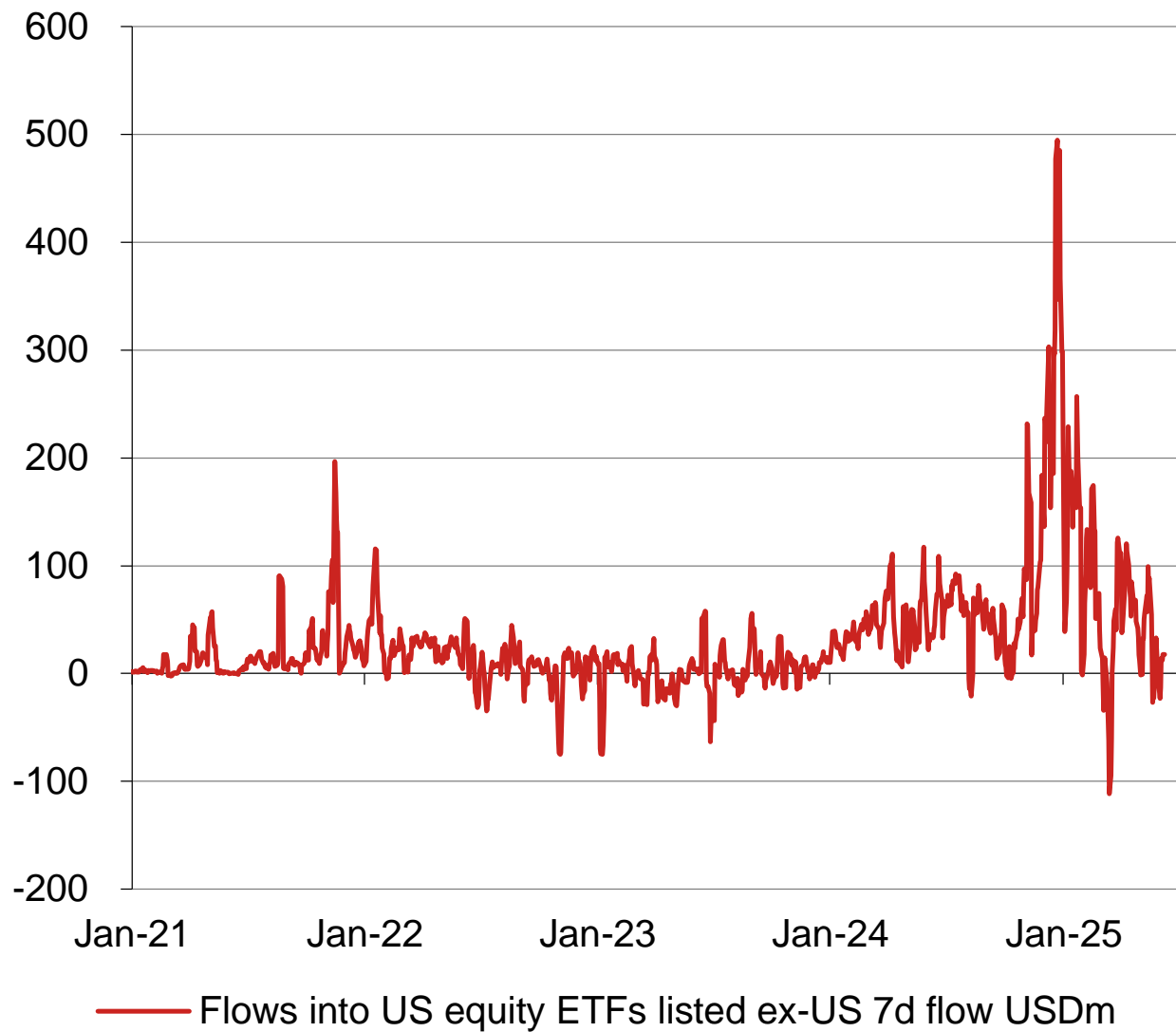
Speculative community has unwound long USD ...



... and options are pricing USD weakness in G3 FX



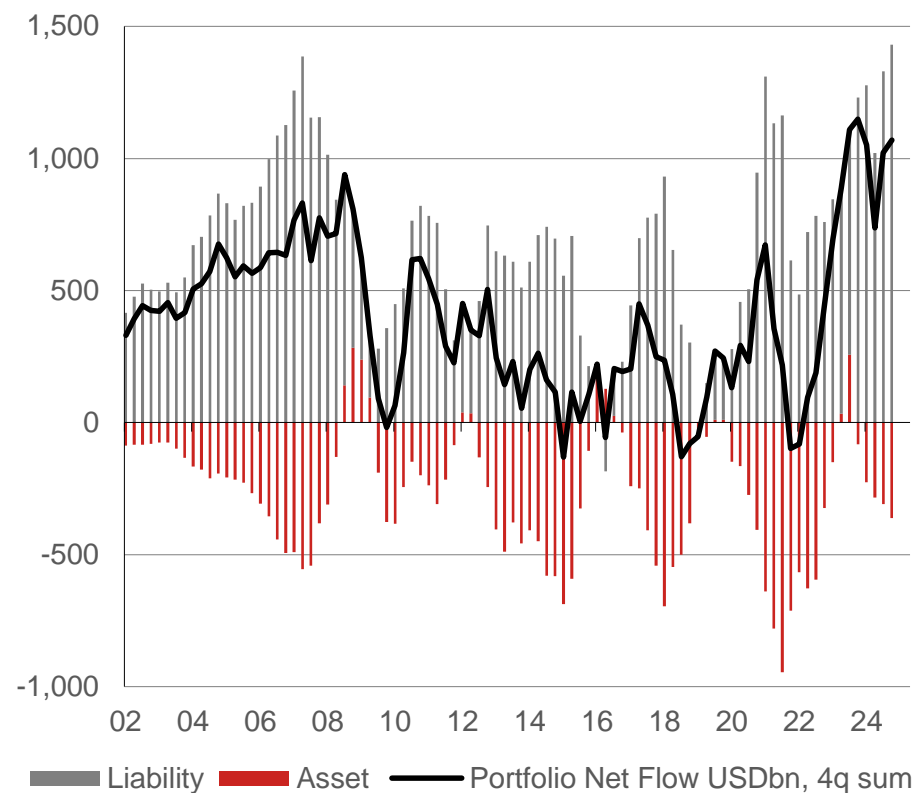
ETF flows have slowed into US, not reversed



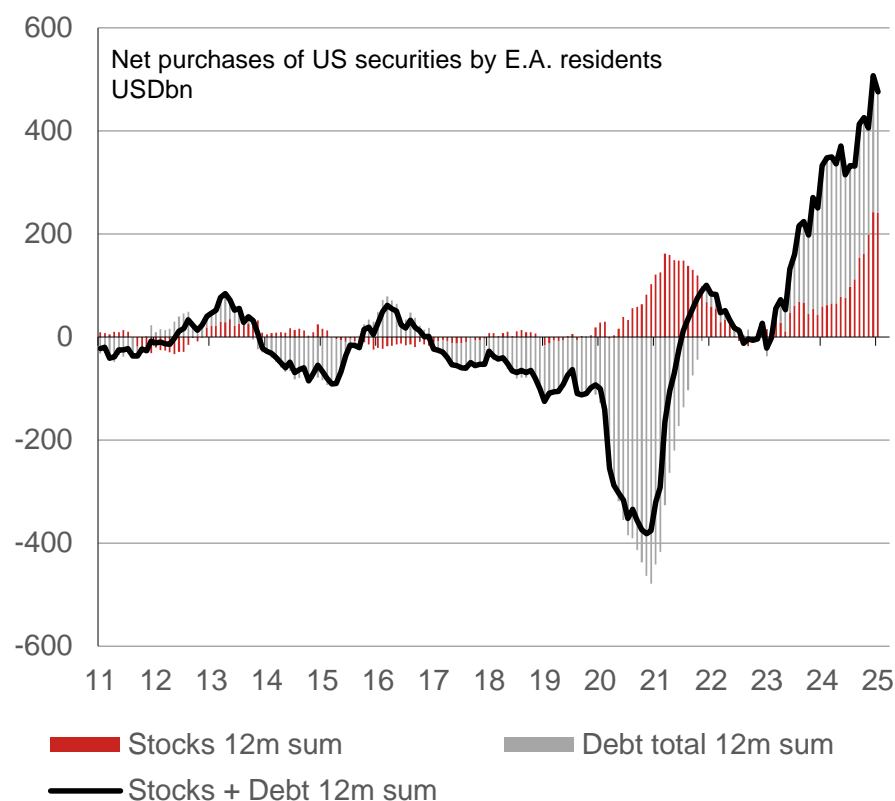
Source: Bloomberg, Nomura

Scope for asset inflows to stall/reverse

Sizable inflows into US assets from overseas ...

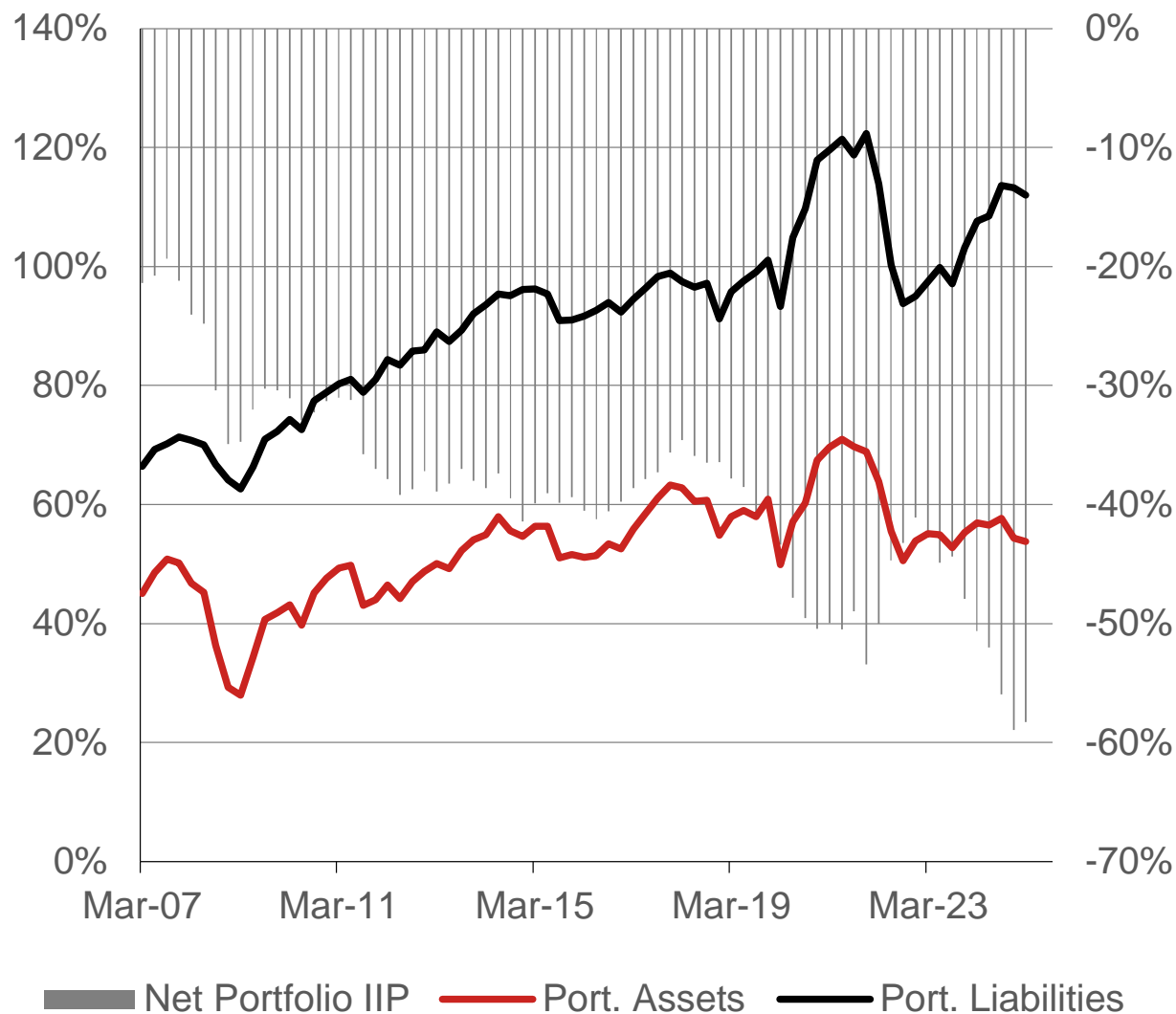


... especially from euro area domiciled investors



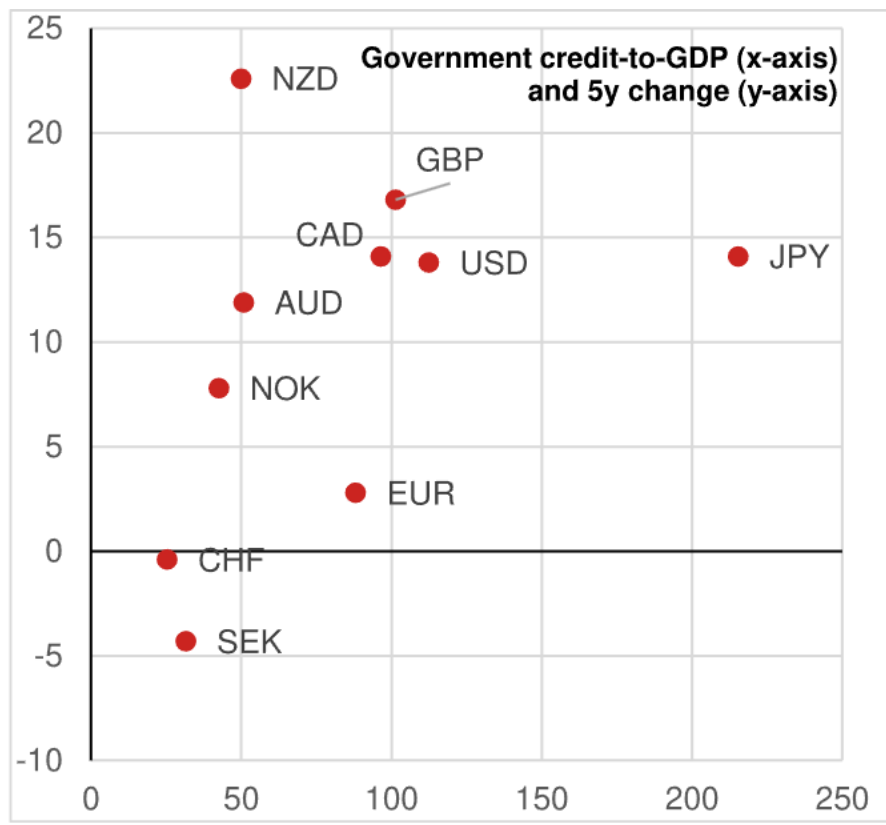
Source: US TIC, Bloomberg, Nomura

US net investment position is a weak point

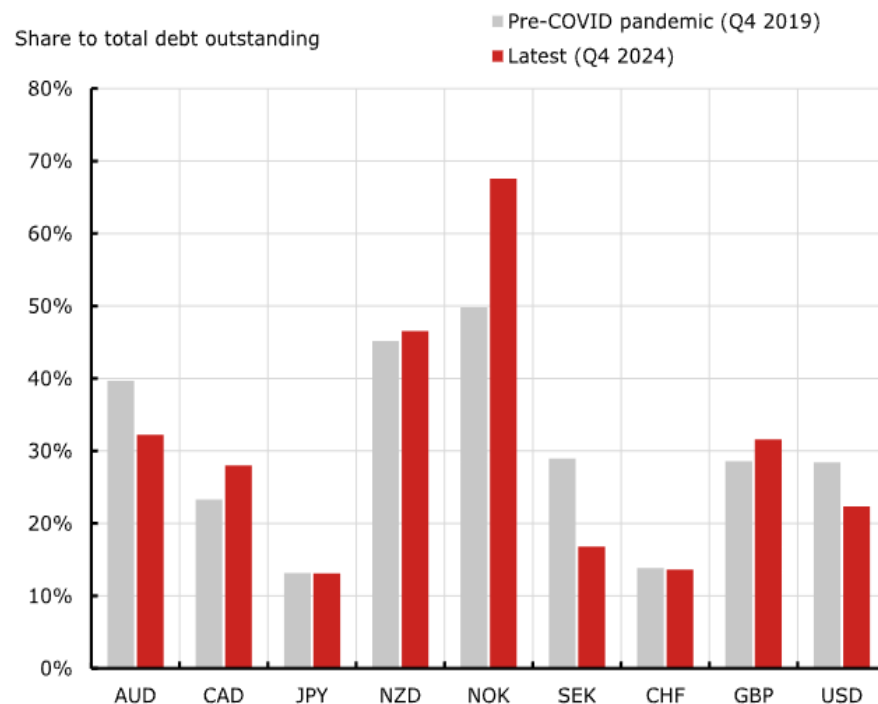


Government debt dynamics could be an issue

US debt position is somewhat concerning ...

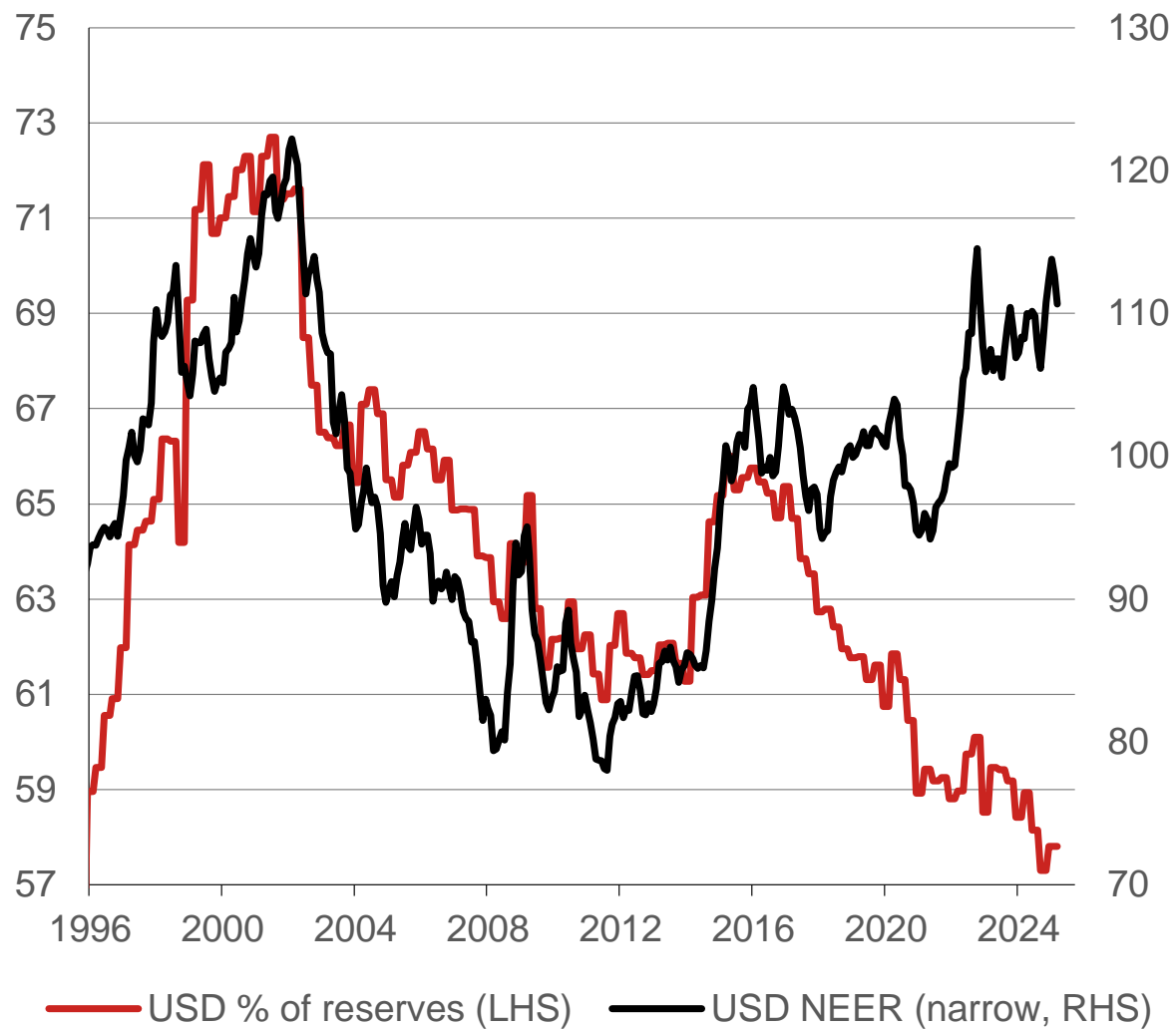


... but foreign ownership of US debt has declined



Note: 1. Quarterly data, with the latest data as of Q4 2024. 2. Data are from IMF's "Sovereign Investor Base Dataset for Advanced Economies".
Source: Macrobond, Nomura

USD strength was not driven by reserves manager buying

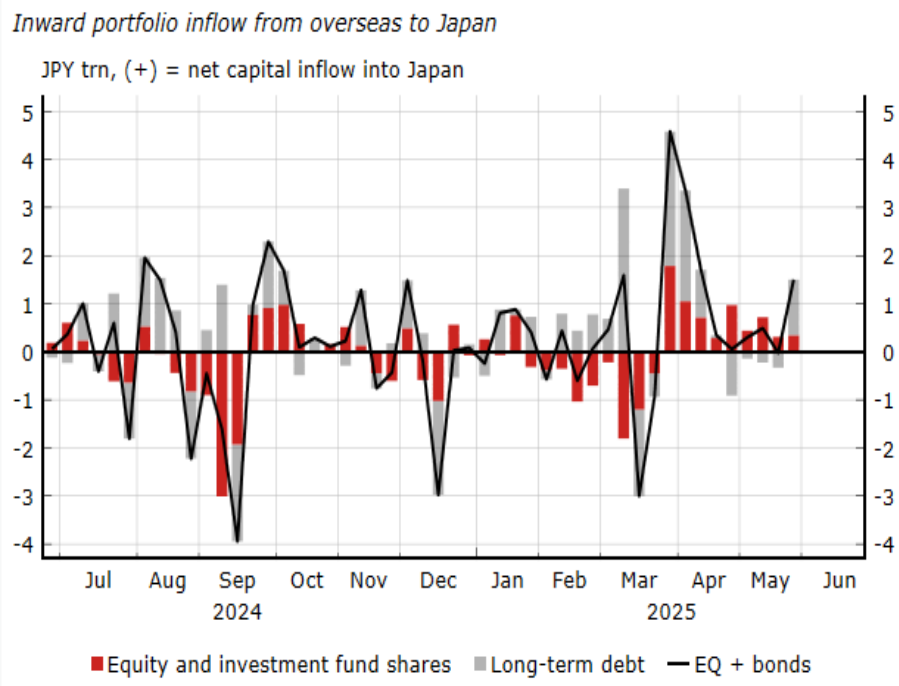


High conviction directional trade ideas

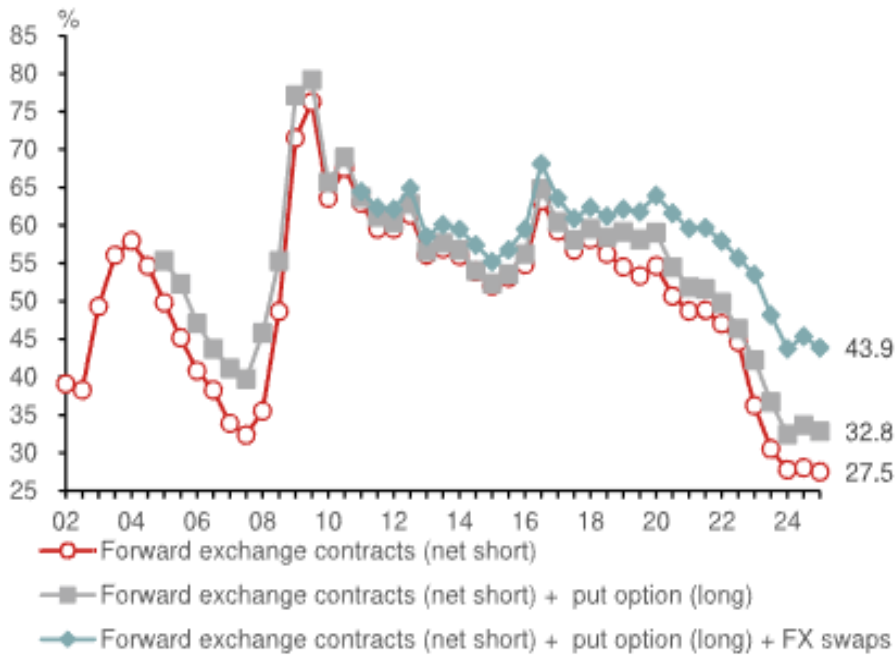


JPY to benefit from de-dollarization

Portfolio inflow to Japan is increasing ...



... and there is lots of scope for increased FX hedging

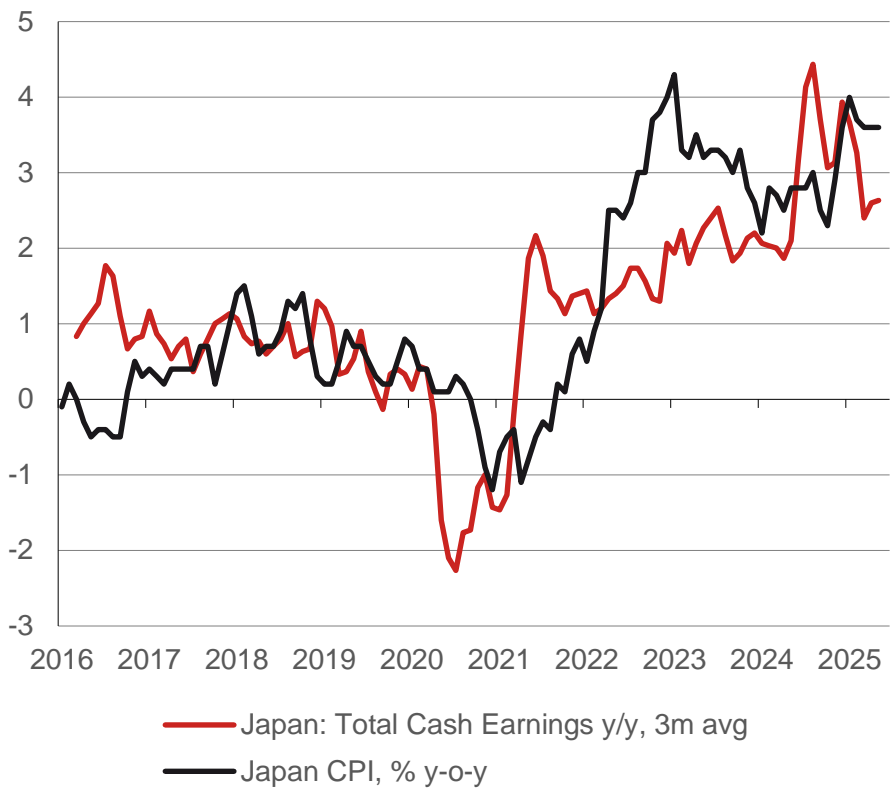


Source: Macrobond, Bloomberg, 9 major Japanese life insurers, Nomura

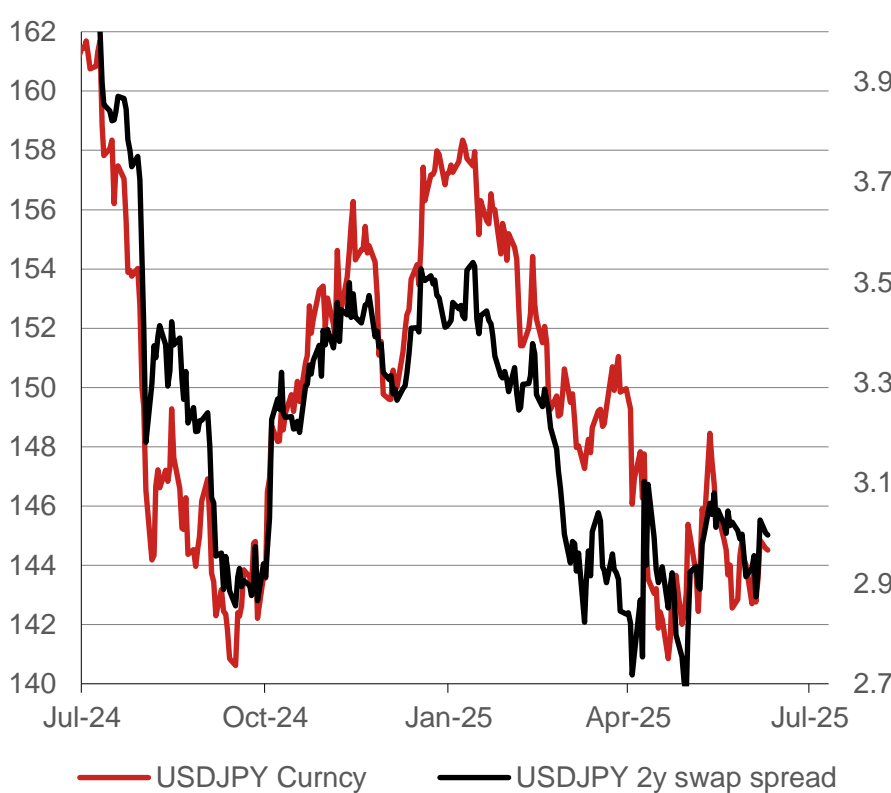


Macro suggests a return to BOJ normalisation

Wage growth remains sticky ...



... and rates still matter for USD/JPY

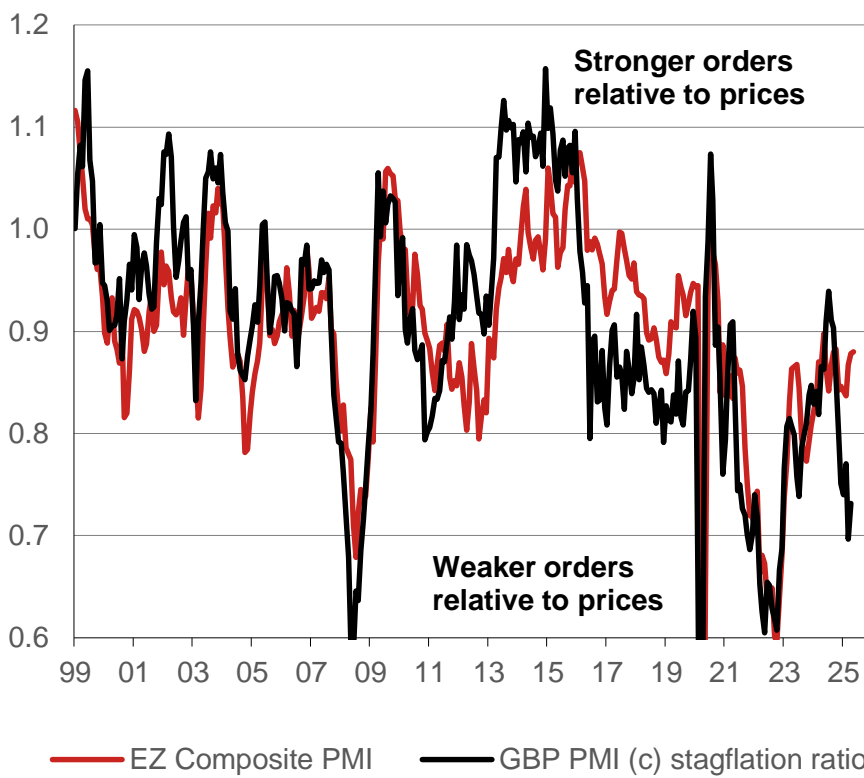


Source: Bloomberg, Nomura

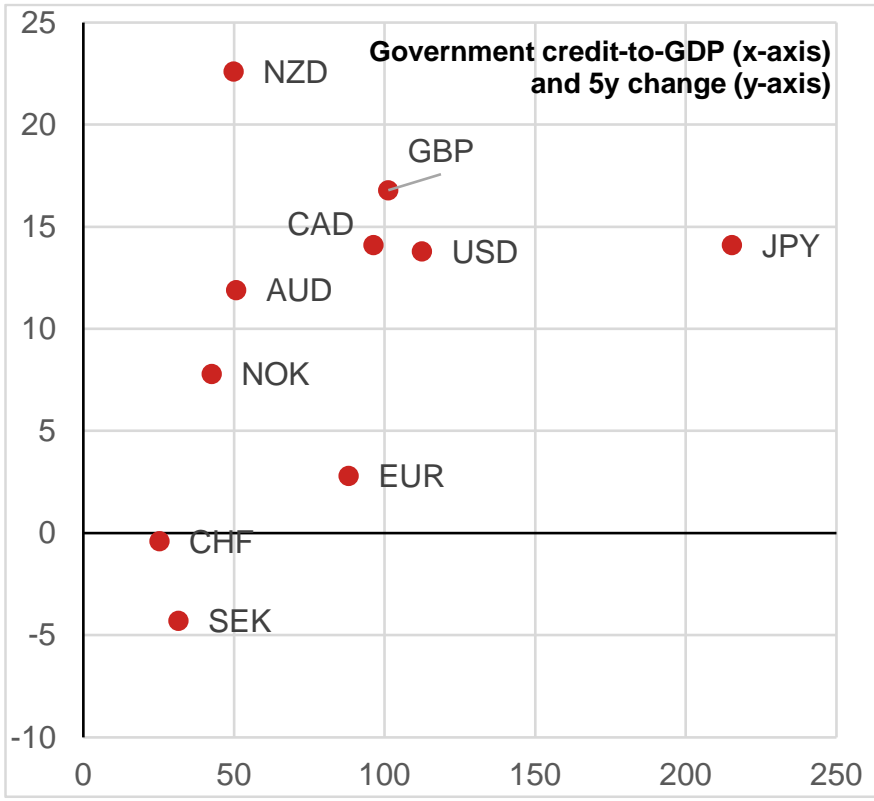


Cyclical and structural factors support the pair

Stagflation challenge much greater in the UK ...



... and limited fiscal capacity to turn the ship around

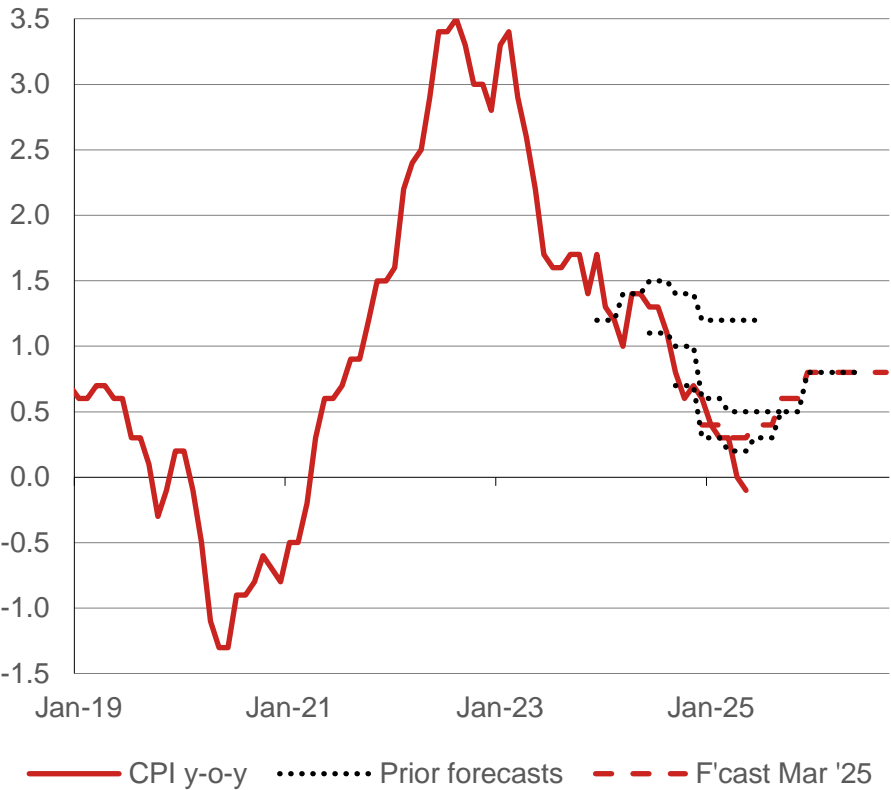


Source: Bloomberg, Nomura

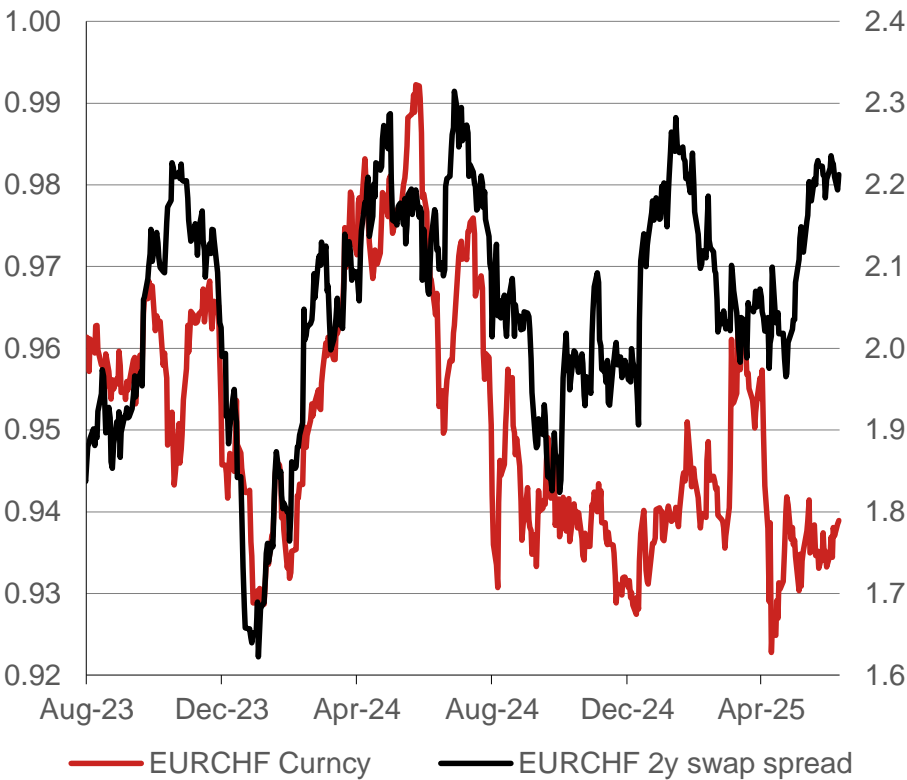


Risk of more aggressive SNB easing in June

Swiss inflation continually undershooting ...



...and CHF has outperformed since US election

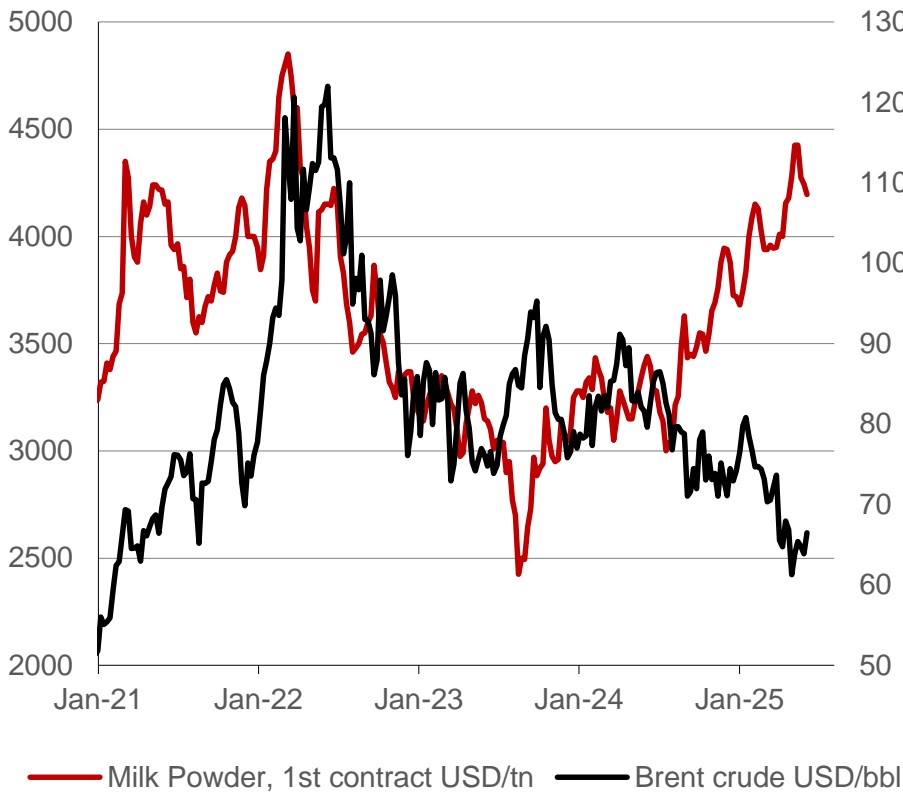


Source: Bloomberg, SNB, Nomura

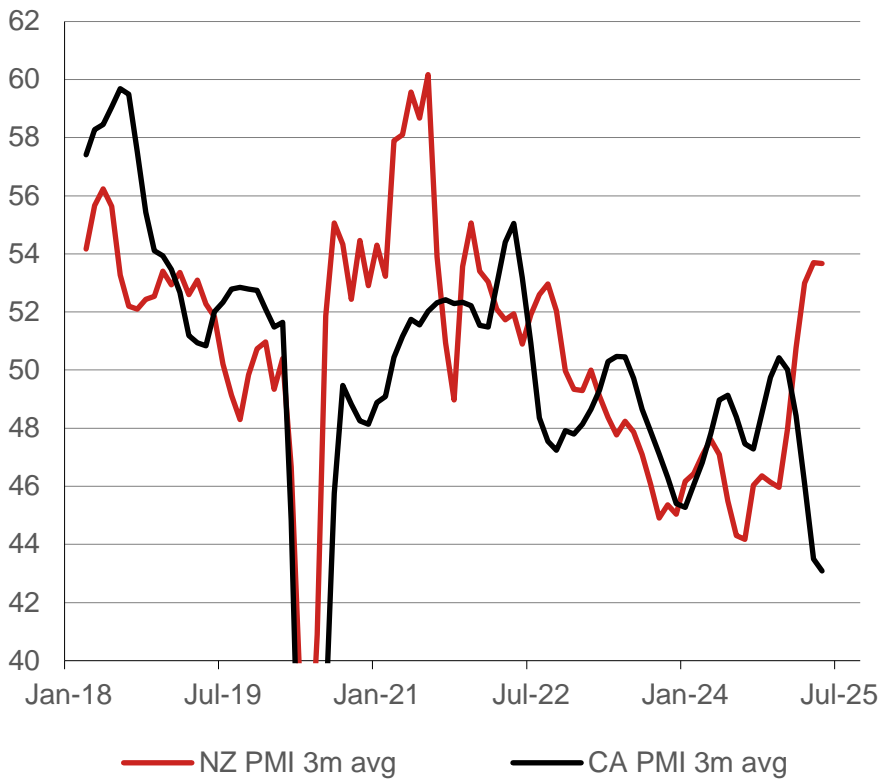


Commodity prices and potential policy divergence

Notable divergence of relative commodity prices



NZ economy is rebounding after rate cuts, Canada is not

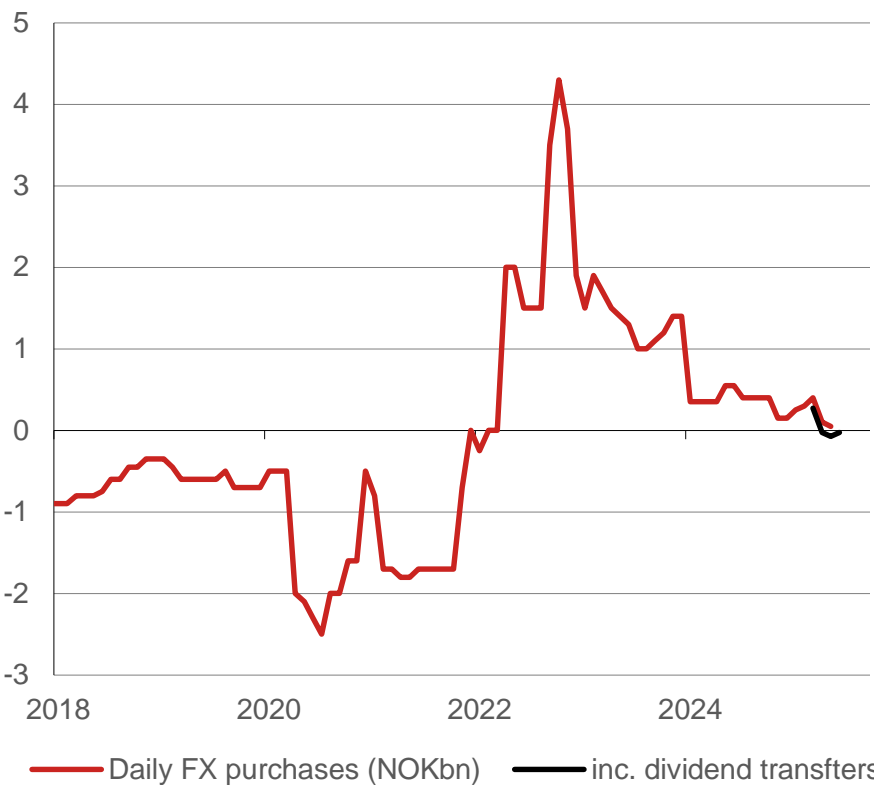


Source: Bloomberg, Nomura

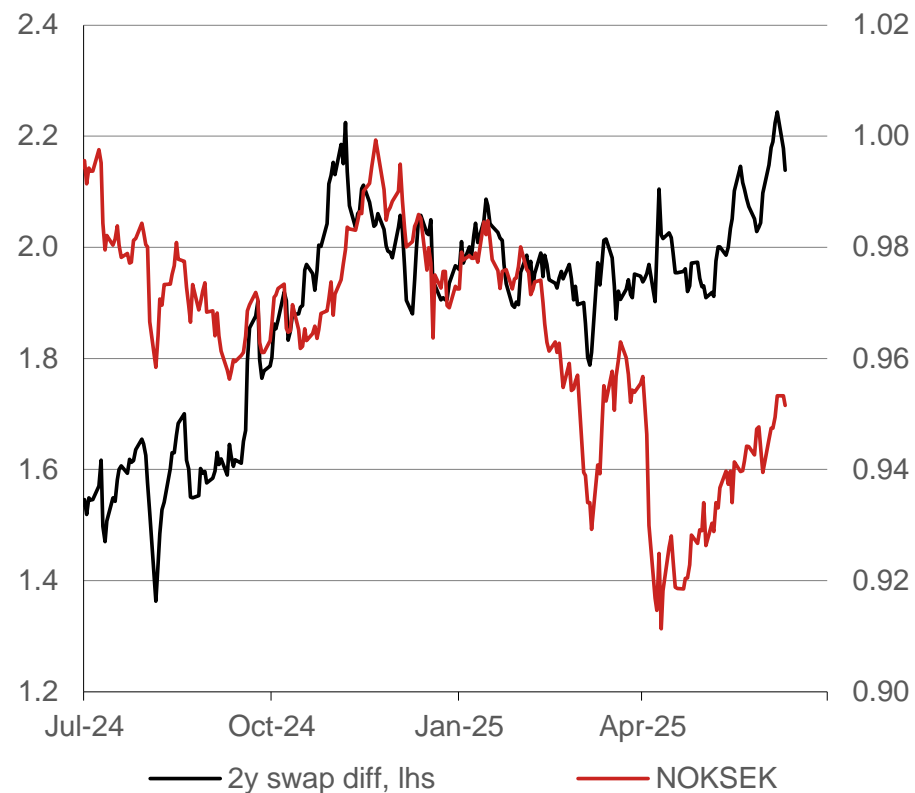


Central bank activity becoming more important

Gradual shift in Norges Bank FX activity ...



... should allow NOK/SEK to realign closer to yields



Source: Bloomberg, Nomura

G10 FX strategy – key views and themes

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- **High conviction directional trade ideas**
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Appendix A-1

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When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For JI17 and subsequent issues, the maturity value shall not undercut the face amount.

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.5% (tax included) of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.5% (tax included/annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

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