

Dollar sold; JPY gains amid rate check speculation

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar down, Gold up.
- **REAR VIEW:** US Flash PMIs fall short of expectations; UoM sentiment revised higher; BoJ held rates as expected, but with Takata voting for a 25bps hike; UK Retail Sales and Flash PMIs top expectations; Bets on Rick Rieder being new Fed Chair surge; Trump criticizes Canada on favouring business with China; China reportedly tells big tech firms they can prep orders for NVDA's H200 chips; Trump admin weighs naval blockade to halt Cuban oil imports.
- **COMING UP:** **Data:** German Ifo (Jan), US Chicago Fed National Activity Index (Oct/Nov), Durable Goods (Nov), Atlanta Fed GDP. **Events:** Australian Holiday (Australia Day). **Supply:** Japan, EU, US.
- **WEEK AHEAD:** Highlights include FOMC, BoC, Riksbank, EZ GDP, Tokyo CPI. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing FOMC, BoC, Riksbank, BCB; reviewing BoJ, Norges Bank, CBRT. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Mag-7 earnings begin as MSFT kicks things off. [Click here for the full report.](#)

MARKET WRAP

US indices were broadly lower to end the week, although the tech-heavy Nasdaq 100 was the sole index in the green and supported by gains in NVIDIA (+1.5%) after China informed the biggest tech firms that they can prep orders for H200 chips. However, Intel's (-17%) plunge after weak guidance capped gains. Sectors were mixed, as Financials and Industrials lagged, while Energy was the outperformer and buoyed by strength in the crude complex, given the US's continued punchy rhetoric surrounding Iran. In addition, the US/Russia/Ukraine have commenced their trilateral meeting, albeit concluded for the day, and Zelensky said it is still too early to draw conclusions and will see how the conversation develops tomorrow and what results it produces. Despite the above, the main story was in the FX space as the Yen saw notable strength as the USD/JPY retraced from a high of 159.226 to a low of 155.68. Overnight, there was a slightly hawkish vote split from the BoJ (8 voted for hold, Takata voted for a 25bps hike), and speculation over FX intervention followed. A few important events followed the decision. 1) Ueda said they must pay attention to even small FX moves, 2) Finance Minister Katayama said they are watching FX moves with a high sense of urgency, and 3) A sharp bout of JPY strength in Ueda's conference. All this combined led markets to believe intervention was possibly at play; however, desks note the size of the move and timing (amid Ueda presser) likely diminishes it being the case. Thereafter, the Yen once again saw sharp appreciation, albeit over a couple of hours, on a lack of headline newsflow. Elsewhere in the FX space, all majors benefited against the Greenback. Despite the moves in the Dollar, T-Notes saw slight weakness in thin parameters ahead of the FOMC next week. Precious metals (XAU, XAG) saw strength amid possible diversification away from the Dollar, and saw spot silver top USD 100/oz and spot gold edged towards USD 5k/oz.

US

FLASH PMIS: Manufacturing printed 51.9 in January from 51.8, beneath the expected 52.0. Services fell short of the expected 52.8, as it was unchanged at 52.5 from December's 52.5. This left the composite at 52.8, up from 52.7. Employment rose slightly, with the near-stalled job market reflecting concerns from companies over rising costs and softer sales growth in recent months. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, wrote that "The survey is signalling annualized GDP growth of 1.5% for both December and January, and a worryingly subdued rate of new business growth across both manufacturing and services adds further to signs that Q1 growth could disappoint".

MICHIGAN: University of Michigan final data for January was strong and revised up across the board, highlighted by sentiment at 56.4 from 54.0, conditions at 55.4 (prev. 52.4), and forward-looking expectations lifting to 57.0 from 55.0. Inflation expectations saw the short-term 1yr ahead falling to 4.0% from 4.2%, with the longer-term 5yr inching up to 3.3% from 3.2%, but beneath the expected 3.4%. Surveys of Consumers Director Joanne Hsu remarked that while the overall improvement was small, it was broad-based, seen across the income distribution, educational attainment, older and younger consumers, and Republicans and Democrats alike. Despite saying that, Hsu adds, national sentiment remains more than 20% below a year ago, as consumers continue to report pressures on their purchasing power stemming from high prices and the prospect of weakening labor markets.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 2+ TICKS HIGHER AT 111-21+

T-Notes see slight weakness across the curve ahead of next week's FOMC. At settlement, 2-year -0.7bps at 3.605%, 3-year -1.1bps at 3.673%, 5-year -1bps at 3.839%, 7-year -1bps at 4.033%, 10-year -1bps at 4.237%, 20-year -0.8bps at 4.796%, 30-year -0.6bps at 4.833%.

THE DAY: Overnight, T-Notes saw rangebound trade and saw limited follow-through from the weakness in JGBs post- BoJ and Governor Ueda. JGBs were weighed on by the hawkish dissenter, upward growth revisions and a lift to the 2026 inflation view, and despite Ueda seemingly intimating the earliest point for a hike would be April, it left market pricing with a slight hawkish skew. Nonetheless, T-Notes continued to trade within very narrow parameters through the EU and US sessions, highlighted by T-Notes

hitting a peak of 111-23+ and a low of 111-16. Despite the lack of movement in Treasuries, there was notable strength in the Yen (and by account weakness in the Dollar), which failed to spark much reaction in other assets, but saw USD/JPY tumble from an earlier high of 159.23 to a low of 155.90. Regarding data, US S&P Global PMIs disappointed, while final UoM for January saw all metrics revised higher, but little move was seen in markets as it had little sway on the outlook for the Fed heading into the confab next Wednesday.

THE WEEK: On the week, the bond steepener trade got knocked back this week, and some desks note it is set to come under further pressure given supply seasonals, FOMC meeting and a reshuffling of the odds for who will be the next Fed chair, given Warsh was the favourite for the vast majority of the week, followed by Rieder. Do note, as the week draws to a close, Rieder has actually becoming betting favourite for the first time. On this, and as desks added, Warsh could set the bond market up for another fight between a White House demanding cuts and a Fed unwilling to deliver. In addition, Treasuries are still adjusting after Trump withdrew his tariff threats on the EU regarding Greenland earlier in the week, which helped quell some inflationary fears and reduced geopolitical concerns, flattening the curve.

SUPPLY:

Notes

- US Treasury to sell USD 69bln of 2-yr notes on Jan. 26th, USD 70bln of 5-yr notes on Jan 27th, USD 44bln of 7-yr notes on Jan. 29th; all to settle on Feb. 2nd.
- US is to sell USD 30bln of 2-yr FRN on Jan. 28th, to settle on Feb. 2nd.

Bills

- US is to sell USD 89bln of 13-wk bills, USD 77bln of 26-wk bills on Jan 26th, and USD 90bln of 6-wk bills on Jan. 27th; all to settle on Jan. 29th.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: January 0bps (prev. 0bps), March 2.8bps (prev. 2.1bps), April 6.5bps (prev. 6.2bps), December 42.78bps (prev. 42.2bps)
- NY Fed RRP op demand at 0.93bln (prev. 2.06bln) across 5 counterparties (prev. 14)
- EFRF at 3.64% (prev. 3.64%), volumes at USD 89bln (prev. 95bln) on January 22nd
- SOFR at 3.64% (prev. 3.63%), volumes at USD 3.121tn (prev. 3.087tn) on January 22nd

CRUDE

WTI (H6) SETTLED USD 1.71 HIGHER AT USD 61.07/BBL; BRENT (H6) SETTLED USD 1.82 HIGHER AT USD 65.88/BBL

The crude complex was firmer in a week dominated by geopolitics ahead of the US/Russia/Ukraine trilateral meeting. Recent reports suggest the meeting on Friday ended with participants awaiting any potential readout ahead of the Saturday meeting. Prior to the meeting, Trump met Putin, as he did with Zelensky on Wednesday, and the US President said Putin, alongside others, will have to make concessions to end the war in Ukraine; Trump added both Putin and Zelensky want to make a deal, while the Kremlin called the talks "constructive". Aiding the energy upside on Friday was more punchy Iran reporting, as Trump continues to increase the pressure through more sanctions, and announced an "armada" was heading towards the Middle Eastern nation. Trump also remarked that they have a big force going towards Iran, is watching Iran very closely, and would rather not see something happen on Iran, but he did note they will be doing a 25% secondary tariff on Iran. On the supply footing, JPMorgan notes that global crude and condensate exports have been down by as much as 4.5mln BPD at points this month on the Russia, Kazakhstan and Venezuela disruptions. Although JPM stressed a meaningful amount of that is not lost supply, and markets may be overpricing the impact. In the weekly Baker Hughes rig count, oil rose 1 to 401, natgas was unchanged at 122, leaving the total lifting 1 to 544. WTI traded between USD 59.52-61.26/bbl and Brent USD 64.29-66.07/bbl.

EQUITIES

CLOSES: SPX +0.03% at 6,916, NDX +0.34% at 25,605, DJI -0.58% at 49,099, RUT -1.82% at 2,669

SECTORS: Financials -1.38%, Industrials -0.80%, Health -0.56%, Utilities -0.40%, Communication Services +0.14%, Real Estate +0.30%, Technology +0.54%, Energy +0.61%, Consumer Staples +0.65%, Consumer Discretionary +0.73%, Materials +0.86%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.05% at 5,953, Dax 40 +0.01% at 24,859, FTSE 100 -0.07% at 10,143, CAC 40 -0.07% at 8,143, FTSE MIB -0.58% at 44,832, IBEX 35 -0.67% at 17,544, PSI -0.54% at 8,558, SMI -0.72% at 13,149, AEX -0.01% at 1,000

STOCK SPECIFICS:

- China informs the biggest tech firms that they can prep orders for **NVIDIA's (NVDA)** H200 chips.
- **Spotify (SPOT)** was upgraded at Goldman Sachs to 'Buy' from 'Neutral'.
- **Amazon (AMZN)** plans 2nd round of corporate job cuts next week, targeting c. 30,000 roles in total.
- **Disney (DIS)** expects to announce the appointment of its next CEO in early '26.
- **Cigna (CI)** said its plan to end drug rebates will cut earnings by \$500-600mln.
- **Capital One (COF)** is to acquire Brex for \$5.15bln in cash & stock.
- **Fortinet (FTNT)** was upgraded at TD Cowen to 'Buy' from 'Hold'.

EARNINGS:

- **Intel (INTC):** Softer-than-exp. next Q guidance, citing supply constraints & prod. efficiency challenges despite a quarterly earnings beat.
- **CSX (CSX):** Profit beat.
- **Intuitive Surgical (ISRG):** EPS & revenue topped St. consensus.
- **SLB (SLB):** Top & bottom line surpassed exp.

FX

The dollar was lower against all major peers as participants continued to seek alternatives amid unpredictable US admin actions on trade, geopolitics and the Fed. Given that US equities and Treasuries showed little correlation to the FX intraday moves, it appeared to be more dollar hedging as opposed to 'Sell America'. Highlighting this was the silver's move above USD 100/oz and gold inching closer to USD 5000/z (peaked at 4,990) with optimism on central bank gold buying still at large given NBP last week announcing intentions to increase gold reserves to 700 T from 550 T. On the Fed, concerns over independence have increased with betting markets assigning BlackRock's Rick Rieder around a 47% probability of being the new Fed Chair from around 6% last week, surpassing Former Fed Governor Warsh (32%). Reports suggest Rieder has garnered Trump's attention with his ideas for overhauling the Fed, likely reinforced by his zero experience at the Fed, unlike Warsh and Current Governor Waller (10% chance). Elsewhere, US data had little bearing on price action (UoM revised higher, S&P Global Flash fell short). DXY trades around lows of 97.557 from the earlier 98.481 highs.

JPY was the standout G10 currency to end the week, following a slightly hawkish vote split from the BoJ (8 voted for hold, Takata voted for a 25bps hike) and speculation over FX intervention. The BoJ kept rates at 0.75% as widely expected, noting it will continue to raise the rate (if the economic outlook is realized, Ueda added later) and adjust the degree of monetary accommodation. A few important events followed the decision. 1) Ueda said they must pay attention to even small FX moves, 2) Finance Minister Katayama said they are watching FX moves with a high sense of urgency, and 3) A sharp bout of JPY strength in Ueda's conference. All this combined led markets to believe intervention was possibly at play; however, desks note the size of the move and timing (amid Ueda presser) likely diminishes it being the case. Some note a possible reason behind the move was as a rate check (MOF calling round to see where banks think the JPY should be). JPY strength trimmed before resuming later in the session, gradually, but albeit in an aggressive way, again signalling likely not a case of intervention but markets continuing to assess the BoJ, and FM language from today, as well as the broad USD diversification described above. From earlier 159.224 highs, USD/JPY now trades around 155.682 lows at pixel time.

All G10 FX was firmer vs. USD on Friday. GBP and AUD saw strong gains; the former was helped by surprise growth in Retail Sales for December (act: 0.4% vs exp. -0.1%) and strong UK Flash PMIs; AUD benefited from optimism on China as well as the metals rally.

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