Scotiabank... Global FX Strategy

FX SNAPSHOT

October 16, 2025

Analyst Team

Shaun Osborne

Chief FX Strategist 416.945.4538

shaun.osborne@scotiabank.com

Eric Theoret

FX Strategist 416.863.5934 eric.theoret@scotiabank.com

Remain Bullish JPY Eyeing Shifting Political Risks Into PM Election Oct 21 & BoJ Meeting Oct 30

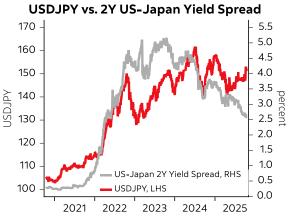
Japan's political situation remains a source of critical uncertainty for the yen as the Liberal Democratic Party (LDP)'s October 4 election of the divisive Sanae Takaichi appears to have fractured a political alliance that had helped to govern Japan's lower house for much of the past 26 years. The alliance fell apart on Friday (October 10) and delivered an impressive bullish reversal in the yen as market participants began to fade some of the weakness that had been observed in response to Takaichi's win.

The new LDP leader is a known fiscal and monetary dove, and markets have expressed concerns about the implications of her premiership in terms of its impact on the BoJ, its independence, and policymakers' ability to carry out the tightening that it they been communicating to markets over the past month or so.

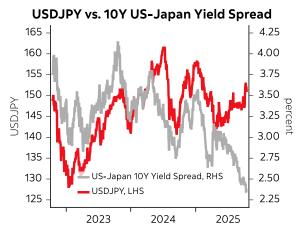
Japan's parliament, the Diet, will elect a new Prime Minister on October 21 and the LDP's main opposition parties are looking to form a coalition to oppose Takaichi. The opposition coalition would be expected to favor fiscal stimulus while respecting conventional concepts of central bank independence and thus would be expected to deliver JPY strength—as the BoJ would be expected to proceed with tightening.

The BoJ's next meeting is scheduled for October 30, and markets are currently only pricing in about 3bpts of tightening for the meeting and a cumulative 14bpts by the December meeting. This marks a material decline from the 14bpts and 19bpts that had been priced for Oct. and Dec. on October 3, the day before the LDP leadership election. An October 21 win for the opposition coalition would be bullish JPY.

We have maintained a bullish JPY (bearish USDJPY) forecast on the basis of relative central bank policy and an outlook that includes both BoJ tightening and Fed easing. In terms of fundamentals, the narrowing of US-Japan yield spreads has offered critical support to the yen. However, the latest period of domestic turbulence has delivered considerable volatility in the JPY as market participants have responded to shifting political risks and their implications for a tighter BoJ stance.



Source: Macrobond, Scotiabank FICC Strategy



Source: Macrobond, Scotiabank FICC Strategy

TM Trademark of The Bank of Nova Scotia Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Lapital Inc. Is a member of the Scotiabank Group and authorized Lerivity Company; Scotiabank Inventat Casa de Bolsa S.A. de C.V., Scotia Invertat Derivados S.A. de C.V., And International Institutions of Canada. Scotia Capital Inc. is a unthorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is a unthorised on the INC Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc. is regulated by the UK Financial Conduct Authority and Inverted Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial Justivity of the Mexican financial Justivity of the Mexican financial Justivity of the Scotiabank Inverted. Scotia Derivados, S.A. de C.V., and Scotia Derivados, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial Justivity of the Scotia Derivados, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial Justivity of the Scotiabank Inverted. Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial Justivity of the Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial Justivity of the Scotia Derivados, S.A. de C.V., are each authorized and regulated by th

This publication is not a research report and is considered a marketing communication only. Consequently this commentary is not governed by rules applicable to the publication and distribution of research reports, including relevant restrictions or disclosures required to be included in research reports and has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research. This publication is not subject to any prohibition in the EU on dealing ahead of the dissemination function of investment research. This communication has been prepared and distributed by staff of Scotia Capital Inc.'s Institutional Equity Sales and Trading Desk (a Canadian Investment Dealer, member of IIROC) solely for the use of sophisticated institutional investment Dealer, member of IIROC) solely for the use of sophisticated institutional investment perspects and staff of Scotia Capital Inc.'s Institutional Equity Sales and Trading Desk (a Canadian Investment Dealer, member of IIROC) solely for the use of sophisticated indicator of future results. Forecast, contained herein are intended for information purposes only and are subject to change without notice. In addition, the opinions and statements contained herein are based on information taken from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accurate and may not be shared by other members of the Institutional Equity Desk or other areas, units, divisions could trade in accordance with the writer and may not be shared by other members of the Institutional Inc. and must be effected through Scotia Capital IICs). So tota Capital IICs) Inc. an affiliate of Scotia Capital IICs) Inc. is a registered broker-dealer, including Scotia Capital IICs). In a filiate of Scotia Capital IICs, in a affiliate of Scotia Capital IICs, in a affiliate of Scotia Capital IICs). In a filiate of Scotia Capital IICs Inc. and is a member of INNSA. The NYSE and is a member of INNSA.

Scotia Capital Inc., its directors, officers, employees, affiliates or clients may currently or from time to time own or hold interests in long or short positions in the securities as principal or agent. Scotia Capital Inc. or its affiliates may have provided or may provide investment banking, capital markets advice or other services to the companies referred to in this communication. This email should not be construed as investment advice or as an offer to buy any securities or other financial instruments. Neither Scotia Capital Inc. nor any of its officers, directors, partners, employees or affiliates accepts any liability for any direct or consequential loss arising from this publication or its contents. Scotia Capital Inc. recommends that investors independently evaluate each issuer and security discussed in this publication, and consult with any advisors they deem necessary prior to making any investment.

If you are subject to the prohibition on third-party benefits in relation to portfolio management and independent investment advice under MiFID II (Directive 2014/65/EU and the accompanying Regulation (EU) No 600/2014) or the UK Markets in Financial Instruments (Amendment)(EU Exit) Regulations 2018, each as amended from time to time, and should not have received this communication, please advise us in writing at trade supervision@scotiabank.com.

