

## FOMC – Solidifying a Pause

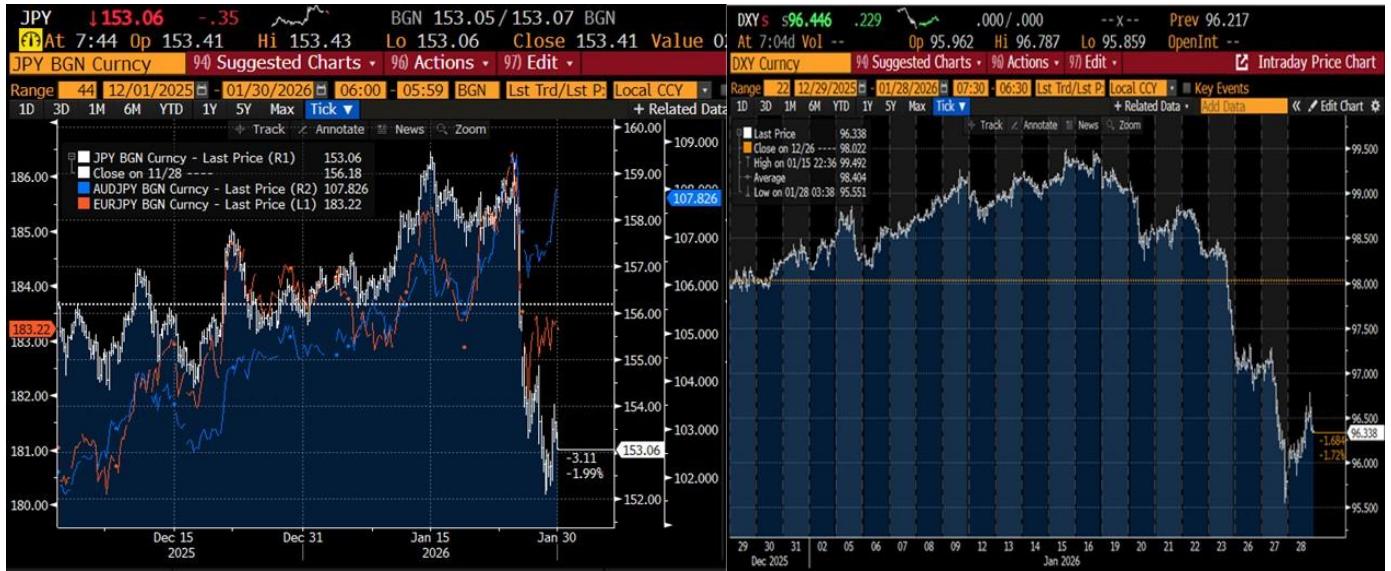
- **Hawkish Hold:** The FOMC **leaving rates on hold was universally expected** after the back-to-back "risk management cuts" totalling 75bp, although the **accompanying rhetoric had a more hawkish edge** to the underlying easing bias.
- **Hat Trick of Hawkish Accents Deferring Cut(s):** Specifically, the combination of allusions to; 1) **"solid" economic activity**; 2) **"stabilization" in unemployment** (crucially, omitting prominent downside risks to jobs), and; 3) **inflation** that **"remains somewhat elevated"**; were undeniably **hawkish accents underscoring** the likelihood of the **Fed suspending easing to remain on hold in coming months.**
- **The "Powell Pause":** All of which was succinctly summarized by Fed Chair Powell in his presser as a **"clearly improved"** economy **"that should matter"**, highly suggestive of an **unrushed window of assessment that ought to punctuate the latent easing bias through the rest of Powell's term through May.**
- **Dissent, Doves & Divergence:** To be sure, the **10-2 vote**, with the **dissenters (Waller and Miran) calling for a cut** not only underscores but also notably **understates the wider divergence of views** across the FOMC. And on the whole, there is a **remnant dovish skew on jobs risks** that have been **merely assuaged, not eliminated**, by recent jobs data - which is widely acknowledged to suffer from distortions.
- **Dollar Backstop ...:** Nonetheless, all else equal, this **hawkish skew at the margin that has interrupted near-term cuts lends itself to marginal traction in the Greenback.**
- **... Not Overt Bullishness:** Although the caveat is that the **presumed bearish political messaging (and misfiring) will have much greater sway on the USD**. And **Trump's bearish USD remarks cast a long shadow**, only partly mitigated by Bessent's "strong Dollar" messaging attempts at damage control. This **stifles overt bullishness in the USD.**

## USD & JPY – “It's Me, Not You” Situation

- **JPY Intervention Ramifications:** And this is **critical in shaping/assessing JPY intervention**. Notably, the **subsequent waves of JPY gains** (vs. USD) – testing 152 before rebounding to 153-154 post-FOMC and Bessent's "strong USD" remarks – is a **case of USD weakness rather than sustained JPY squeeze** (much less bullish JPY turnaround).
- **JPY Intervention Ramifications:** Which is **abundantly evident from USD/JPY slump not being matched in the Cross/JPY**. Tellingly, EUR/JPY is only modestly lower. And AUD/JPY has hardly budged.
- **USD-JPY & the “It's Me, Not You” Situation:** Point being, the classic **"It's me, not you"** line **from the USD** (to the JPY). Only, in this case, it's a break down (lower), not a break-up, in USD/JPY. Trouble with that is, the

**durability of, and scope for, further JPY intervention is complicated**, if not constrained, by messaging around the USD.

- **(JPY) Deterrence, Not Domination:** To be sure, the *credibility of JPY intervention is enhanced\** by evidence of coordination/understanding across US and Japan, which lends itself to **more effective deterrence for JPY bears wary of an "invisible electric fence", not** decisive JPY bear trap; much less **grounds for JPY bulls to dominate.**



Source: Bloomberg, 29<sup>th</sup> Jan 2026

\*To be clear, JPY intervention over the weekend has sent USD/JPY spiralling lower from 159 test to 152 (settling 153-154 post-FOMC) is considered to be resoundingly successful. Especially given that prior interventions in recent years have had far patchier success in both magnitude and durability.

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