

## JPY Bear Trap: Speculative Burn, Not Bullish Rebirth, Edition

- A brutal intervention by the MoF of 2.5-3% squeeze in the JPY (depending on your point of reference) sent the JPY from fleeting post-BoJ lows of 159 to mid-154 [Figure 1].
- We had (back in October last year\*) **warned of a JPY bear trap\*** in the making, given the **exceptional** and arguably, **unsustainable divergence in UST-JGB spreads and (USD/JPY)**.
- **But this is not it.** Not in its most primal form, driven by markets.
- Instead, this is a **speculative burn inflicted by the MoF**, a *warning to reckless bears of an invisible (intervention) electric fence*.
- **Not a fundamental bullish shift** that has *self-sustaining momentum to drive the JPY durably higher*.
- That said, this iteration of Mo F intervention is likely to have higher efficacy – with **unrestrained one-way bearish JPY bets** being **reined in by “live” intervention threats**.
- For one, the MoF has escalated its JPY warning and adopted a more aggressive stance, notably keeping intervention intent “live”.
- Second, **comments and backing by US Treasury Secretary Bessent** has raised the threat of coordinated intervention.
- Finally, PM Takaichi’s deliberate ambiguity but unambiguous warning that “(the Authorities) *will take all necessary measures to address speculative and highly abnormal movements*” putting both JGB and JPY markets on notice.
- In turn, this could arguably allay the self-reinforcing JGB-JPY sell-off.
- Nonetheless, in the grander scheme of things, the **JPY still looks exceptionally undervalued vis-à-vis (UST-JGB) yield spreads** [Figure 2].
- Which means a **more emphatic JPY bear trap** - down the road – **cannot be ruled out**. Especially if ;
  - i. a dovish Fed inflection catches BoJ hawks wrong-footed and/or;
  - ii. Japan’s pension/insurance funds with massive foreign assets re-allocating to JGBs as **fears of “catching falling knives”** that **daunted/deterred from increasingly attractive yields fade**.
- And to be clear, the **case for material JPY strength** (140-150 USD/JPY) to result **merely requires risk premium\*\* from political/fiscal-monetary tensions be diminished** (to reasonable spreads), **not eradicated**.

\*PDF Link to ‘JPY Bear Trap’ Note: [68f157b006c95e7deb1f3f1a\\_mizuho-brief\\_jpy-bear-trap\\_20251013.pdf](https://68f157b006c95e7deb1f3f1a_mizuho-brief_jpy-bear-trap_20251013.pdf)

\*\* Which is currently (but excessively) elevating JGB yields and pressuring JPY simultaneously (defying suppressed UST-JGB spreads).

**Figure 1: Sharp JPY Intervention squeezes JPY up 2.5-3%****Figure 2: Intervention Only Barely Dents Exceptional Divergence**

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