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Forex Medium-Term Outlook

March 31, 2026

Overview of Outlook

USD/JPY saw a unilateral rising trend in March. The markets have completely shifted their focus from domestic politics to the situation in the Middle East as the main trading factor. To be more precise, there are fears that soaring resource prices as a result of the situation in the Middle East could directly result in an expansion of the Japanese trade deficit and lead to another round of JPY depreciation similar to 2022. For 2026, in scenarios where crude prices rise to, say USD90 (a 30% yoy increase), USD100, or USD130 per barrel, Japan's import value would be pushed up by roughly +JPY5.4 trillion, +JPY7.8 trillion, or +JPY14.9 trillion, respectively. Considering that prices seem to be settling between USD90 to USD100 per barrel, an upward revision of the USD/JPY outlook seems reasonable. While deficits are not expected to expand for the time being, thanks to the release of stockpiles, there is certainly a possibility of the situation turning problematic from mid-year onward (depending on the release plan). In this report, I have been warning since last year that moves by the Fed and ECB to switch to rate hikes from 2H of 2026 through early 2027 are the biggest JPY depreciation risk factor. In this regard, given that markets are expecting both central banks' stances to turn clearly hawkish in the face of soaring crude prices as a result of the attacks on Iran, the JPY depreciation risk I have been warning about is beginning to seem more real. If the BOJ keeps up its usual practice of taking at least six months to a year to contemplate its next move, JPY selling driven by the domestic-foreign interest-rate differential is liable to increase, leading to a very significant risk of JPY depreciation. Taking into account the potential expansion of the trade deficit and household willingness to sell JPY, the key issue will be whether the BOJ can take a more resolute stance against JPY weakness than it has so far.

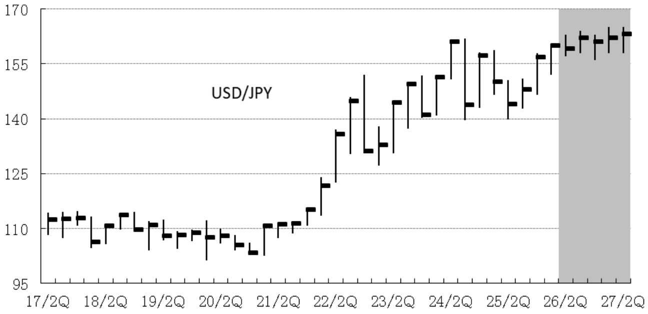
EUR weakened amid safe-haven USD buying in March. As the war strengthens resource price increase, disrupting EUR supply and demand, the currency faces the risk of a sell-off similar to 2022, but regional inflationary pressures have not strengthened as much as they did while the side-effects of the pandemic still lingered. The ECB is quite concerned of a surge in inflation expectations, and market expectations of its course of action going forward have already priced in several rate hikes by the end of the year. Such expectations are also likely to be supporting the strengthening of EUR against JPY. Further, on a medium- to long-term note, the EU bid adieu to its nuclear phase-out policy at an international conference in March. Amid difficulties procuring resources from the Middle East in addition to Russia, and given the instability of a high degree of reliance on the U.S., the resumption of nuclear power generation in the region was probably inevitable. This must be appreciated as a move in the direction of strengthening EUR, especially in light of the fact that Switzerland's extremely low reliance on external resources is a factor in addition to its geopolitical neutrality that makes CHF a desirable currency even in the current phase. Against the background of such moves by other nations, it remains to be seen what decision Japan will take as it suffers from currency depreciation resulting from resource price appreciation.

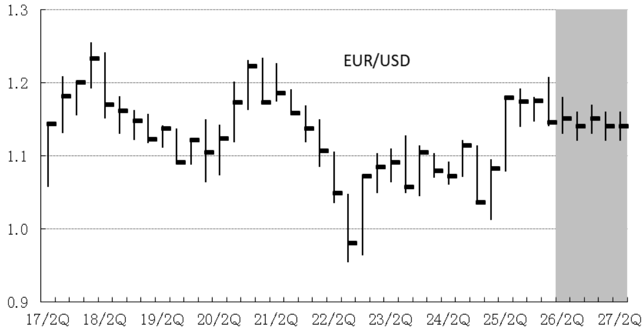
Summary Table of Forecasts

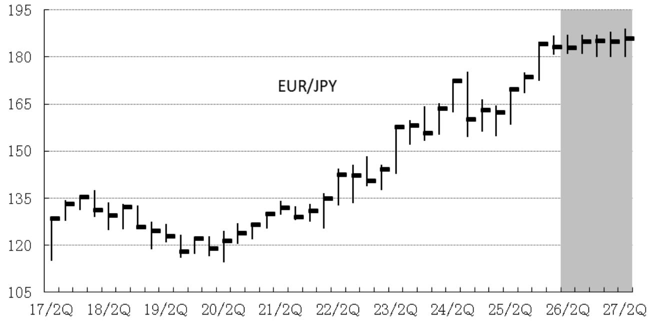
	2026 Jan-Mar (Actual)	Apr-Jun	Jul-Sep	Oct-Dec	2027 Jan-Mar	Apr-Jun
USD/JPY	152.10 ～ 160.47 (159.88)	157 ～ 163 (159)	158 ～ 164 (162)	156 ～ 163 (161)	158 ～ 165 (162)	158 ～ 165 (163)
EUR/USD	1.1409 ～ 1.2084 (1.1475)	1.13 ～ 1.18 (1.15)	1.12 ～ 1.16 (1.14)	1.13 ～ 1.17 (1.15)	1.12 ～ 1.16 (1.14)	1.12 ～ 1.16 (1.14)
EUR/JPY	180.84 ～ 186.87 (183.47)	181 ～ 187 (183)	181 ～ 187 (185)	180 ～ 187 (185)	180 ～ 188 (185)	180 ～ 189 (186)

(Notes) 1. Actual results released around 10 am TKY time on 31March 2026. 2. Source by Bloomberg
3. Forecasts in parentheses are quarter-end levels.

Exchange Rate Trends & Forecasts





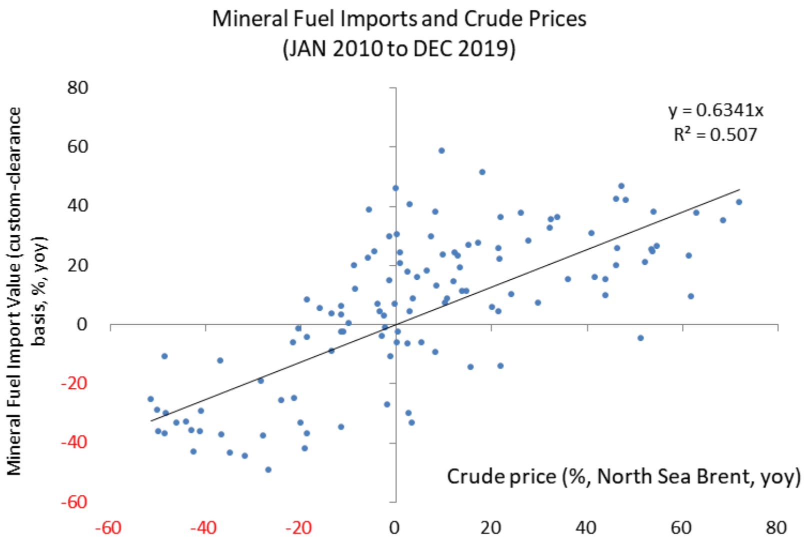


USD/JPY Outlook - Situation Reminiscent of 2022 JPY Depreciation

JPY Supply and Demand Climate – Estimating the Impact of Attacks on Iran

Crude Price Surge vs. Import Values

On February 28, the U.S. and Israel launched preemptive strikes against Iran. The subsequent twists and turns are already being reported in the media, and I will leave the political and diplomatic analysis to experts. However, any conflict surrounding Middle Eastern oil-producing countries is also bound to have an impact on the global economy through crude price fluctuations, and in this context, it will be important to examine the impact on JPY and, by extension, the Japanese economy, mainly focusing on crude price trends. Initially, the Iranian Navy issued a notice prohibiting all vessels from passing through the Strait of Hormuz, but the situation has been changing rapidly. As of the time of writing, Iran has indicated that it will allow non-hostile vessels to pass through the Strait of Hormuz, which has eased tensions somewhat. However, simply receiving permission for vessels to pass through does not constitute a return to normalcy, as factors such as increased insurance premiums will still result in an increase in crude prices. Of course, liquefied natural gas (LNG) and coal also pass through the Strait of Hormuz, but the price of crude oil, which account for over 90% of Japan's dependence on the Middle East, inevitably attracts more attention.



(Source) macrobond; created by the Global Foreign Exchange Department, Mizuo Bank

The situation is fluid, and further developments need to be closely monitored, but as I repeatedly argued in previous issues of this report up until last month, <u>the JPY supply and demand structure, distorted by war and pandemics, had finally been returning to normal for the first time in four years, and it is difficult not to feel pessimistic at the prospect of another similar shock causing further distortion</u>. For example, using the pre-COVID-19 10-year period (January 2010 to December 2019) as the base, a 10% increase in crude prices would result in an approx. 6% increase in Japan's mineral fuel imports, and an approx. 1.5% increase in overall imports (assuming mineral fuels account for approx. 22% of total imports, the average over the past three years).

Computed Change in Crude Prices vs. Import Value

1 Barrel	Change in Import Value (compared with 2025, JPY trillions)
Approx. USD80	3.0
USD90+	5.4
USD100+	7.8
USD130+	14.9

(Source) Created by the Global Foreign Exchange Department, Mizuo Bank

In this regard, I would like to present an estimate based on the assumptions of the Center for Strategic and International Studies (CSIS) as featured in the March 1, 2026 edition of the Nikkei Shimbun. On February 18, CSIS conducted a simulation of the impact of a U.S.-Iran military conflict on crude prices. The scenarios spanned price levels from over USD80 to over USD130 per barrel, with the current blockade of the Strait of Hormuz being presented as a risk scenario causing crude prices to exceed USD90. Incidentally, the price of North Sea Brent crude oil (per barrel) was around USD67 in 2025, declining roughly 15% from 2024 (approx. USD79). Based on the empirical rules mentioned above, this is thought to have reduced Japan's total import value by approx. JPY2 trillion. Given that Japan's trade deficit as a whole for 2025 was approx. JPY2.7 trillion, the decline in crude prices can be said to have played a significant role in improving JPY supply and demand.

For 2026, in scenarios where crude prices rise from USD67 to, say around USD90 (a 30% yoy increase), USD100, or USD130 per barrel, Japan's import value would be pushed up by roughly +JPY5.4 trillion, +JPY7.8 trillion, or +JPY14.9 trillion, respectively. <u>If prices settle between USD90-100, an upward revision of the USD/JPY outlook would have to be considered</u>.

Trade and Services Deficit to Surpass JPY10 Trillion Again?

Of course, with disruption in all the transportation routes, including land, sea, and air routes, exports from Japan will also be affected. The current weak JPY phase began in March 2022, triggered by the war in Ukraine. Over the past four years, it has become clear that JPY is extremely vulnerable to resource price surges and supply chain disruptions during times of crisis. This point gets highlighted especially in conjunction with recent changes in the balance of payments structure, such as the expanding digital deficit and the issue of Japanese companies' overseas profits not returning to Japan (i.e., Japan has a large primary income surplus, but not all of it is repatriated to the domestic market). <u>The fact that import value is likely to increase during a crisis seems intuitively clear, but one must also note the possibility of exports declining</u>.

For instance, in the case of imports, let us take a scenario where crude prices are around USD90-100. As per my previously mentioned calculations, this would increase import value by +JPY5-8 trillion yoy. Using Japan's usual trade deficit (around -JPY2.5 trillion) as the base, such an increase would result in a deficit of nearly -JPY10 trillion. Even if the trade deficit alone does not reach -JPY10 trillion, given that the digital-deficit-led services deficit is -JPY2.5-3.0 trillion, it is quite plausible for the trade and services deficit to exceed -JPY10 trillion. As the figure shows, the are only three instances in history when the trade and services deficit exceeded -JPY10 trillion (2022, 2014, and 2013), and each of these times saw a significant depreciation of JPY against USD. The current account balance on a cash flow (CF) basis, as calculated by myself, was also in the red during these three years (please refer to past issues of this report for discussions about the concept of the CF-based current account balance).

USD/JPY and Japan's Worst 10 Trade and Services Deficits

	Trade and Services	Rate of Change of JPY Against USD
2022	-21.1	14.8
2014	-13.5	13.7
2013	-12.3	22.1
2023	-9.4	7.0
2012	-8.1	11.3
2024	-6.4	11.7
2025	-4.2	-1.2
2011	-3.1	-4.8
2015	-2.8	0.5
2021	-2.5	11.4

(Source) Bank of Japan, Bloomberg; prepared by the Global Foreign Exchange Department, Mizuo Bank
*Earliest available data is for 1985

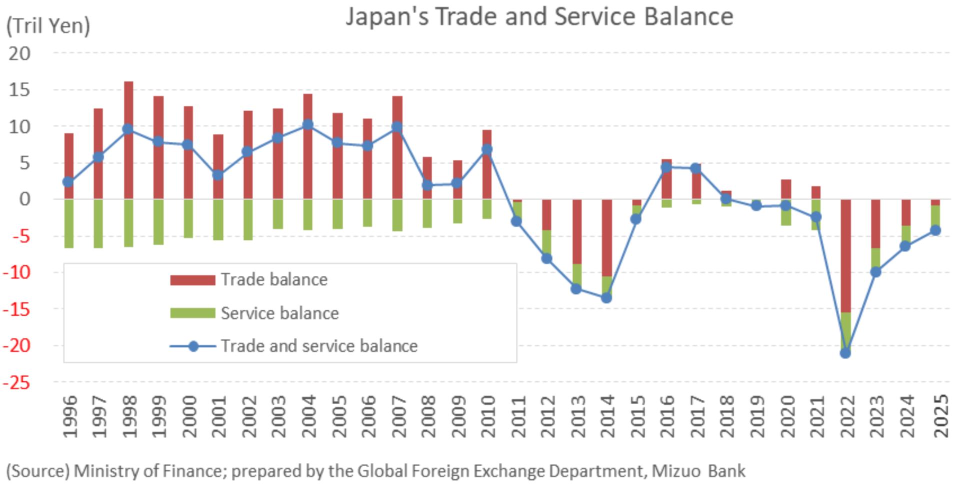
<u>At least from the perspective of forex market participants, the basic analytical stance should be to view a world where crude prices are around USD90-100 as a world where JPY depreciation pressures are likely to re-emerge amid distortions in the JPY supply and demand structure</u>. As mentioned above, LNG and coal also pass through the Strait of Hormuz, though not to the same extent as crude oil, and Japan is already facing export restrictions on rare earth elements amid

deteriorating relations with China. While this discussion is limited to forex-related supply and demand, a more complex pathway is assumed in terms of impact on the Japanese economy.

Background to the 2015-2019 Surplus

As explained above, a trade and services deficit over -JPY10 trillion is quite possible if crude prices rose to around USD90-100, and history (since the shift to a floating exchange rate system) shows that JPY has depreciated significantly against USD in years when Japan posted deficits of that magnitude (-JPY10 trillion or more). The present situation, in which a price exceeding USD100 seems realistic, mirrors the first oil shock of 1973, when crude prices quadrupled, causing Japan's previously stable trade surplus to turn into a deficit. Combined with JPY depreciation, this resulted in runaway inflation. Looking back, the current phase of JPY weakness also began with high resource prices stemming from the Ukraine war. Now, as then, the fate of Japan's exchange rate and prices is dependent on resource prices, which are rooted in geopolitical risks.

Incidentally, Japan's trade and services balance averaged -JPY2.5 trillion per year for the 10-year period preceding the COVID-19 pandemic and the Ukraine war (2010-2019), but posted an average surplus of +JPY990 billion for the 5-year period preceding the pandemic (2015-2019; see figure). This also offers significant insights into the current situation. The average surplus for the period from 2015 to 2019 resulted from JPY appreciation coinciding with a sharp drop in crude prices. Driven by factors such as increased U.S. shale oil production, crude oil prices trended downward from 2H of 2014 onward, even plummeting to USD20 per barrel by 2016. Meanwhile, JPY depreciated sharply against USD during 2013-15, thanks to Japan's unconventional monetary easing, but rose sharply in 2016, falling below 100 against USD at one point. Since then, however, USD/JPY has never fallen below 100.

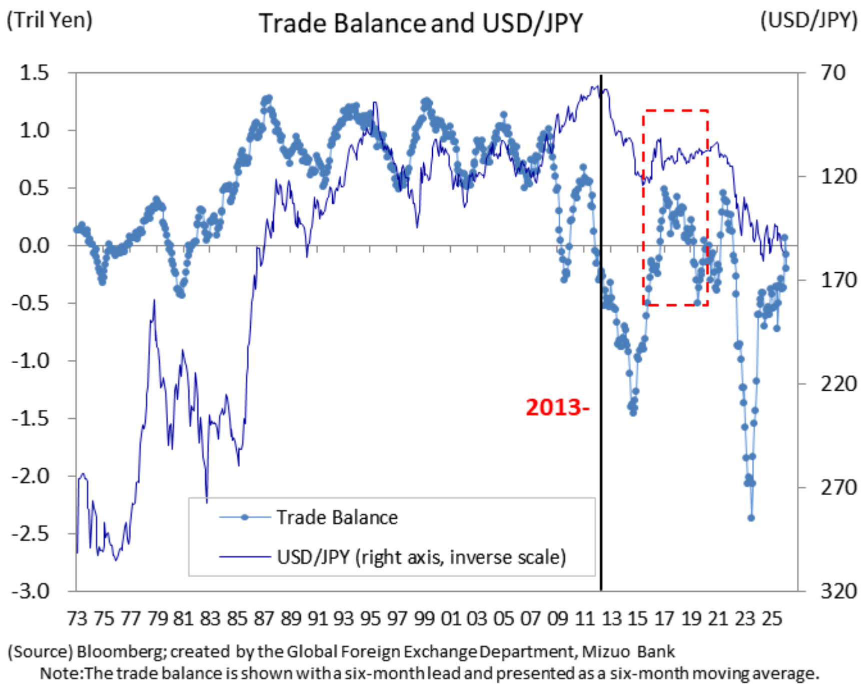


(Source) Ministry of Finance; prepared by the Global Foreign Exchange Department, Mizuo Bank

In short, for a period from 2016, Japan enjoyed a sharp decline in import value due to low crude prices and strong JPY, which is the opposite of what it is facing now, with crude prices determining the trend. To be more specific, the average price of crude oil imported by Japan (JCC: Japan Crude Cocktail) lags behind international benchmarks by several months, so the international decline in crude prices during 2014-16 may have kept Japan's import value down until 2017 or 2018. In fact, the country's trade and services balance generally remained in equilibrium or surplus from 2015 to 2019.

Only a Temporary Letup in JPY Depreciation Trend

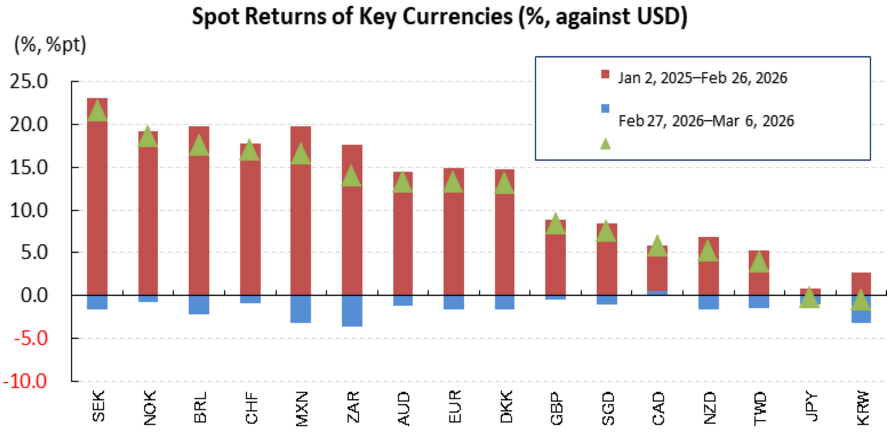
Looking at USD/JPY and Japanese trade balance (on a customs clearance basis) trends since 1973, JPY weakness as a trend began around 2013, when Japan's trade deficit trend became established (see pragh). Japan, having experienced the oil shock in the 1970s, relentlessly pursued the adoption of energy-saving technologies and the promotion of its export industries, quickly succeeding in turning its trade deficit back into a surplus. The Japanese economy at that time, it must be said, was capable of using a crisis as a springboard to restore structural resilience. Its accumulation of trade surpluses starting around this time marked the beginning of a long period of JPY strength. However, the period enclosed by the red dotted rectangle above (2015-2019) is different from that immediately following the 1970s oil crisis, when a surplus was achieved by regaining structural resilience. What we see here, rather, is a weakening of the JPY depreciation trend against a



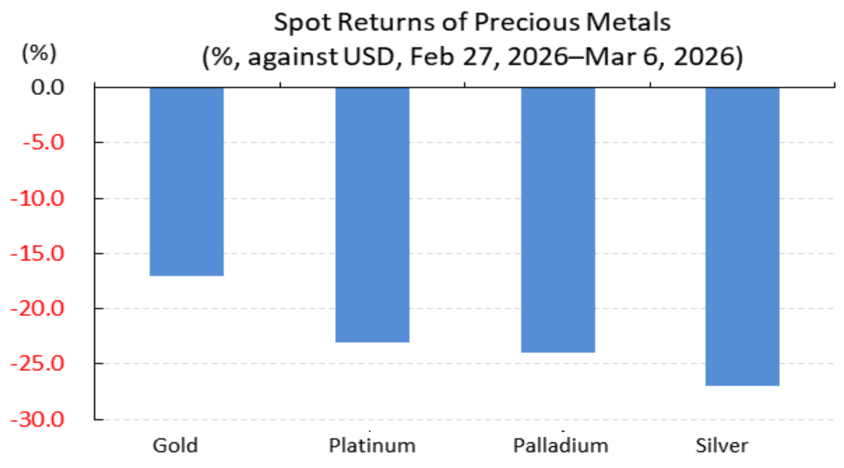
(Source) Bloomberg; created by the Global Foreign Exchange Department, Mizuo Bank
Note:The trade balance is shown with a six-month lead and presented as a six-month moving average.

temporary improvement in the trade balance. Subsequently, with the return of a trade deficit, JPY depreciation resumed. The 2015-19 JPY appreciation trend was no more than a temporary phenomenon reflecting the decline in crude prices, not something that held the power to change the trend going forward.
Meanwhile, it is natural to see the JPY depreciation phase starting 2022 as having resulted from and being consistent with the largest trade deficits in Japan's history caused by soaring crude oil and LNG prices. As the figure on the previous page shows, this trend seemed to be ending in 2024-2025, but if crude prices rise again, another phase of severe JPY depreciation driven by supply and demand conditions, similar to that seen during 2022-23, must be expected. While this is still a risk scenario, the odds of it coming true are increasing.

Forex Markets Now and Going Forward – Safe-Haven USD Buying vs. De-Dollarization



(Source) bloomberg; created by the Global Foreign Exchange Department, Mizuo Bank



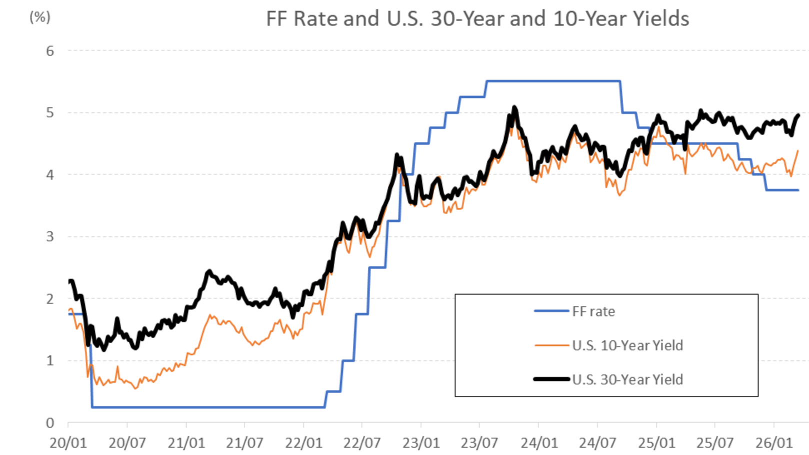
(Source) bloomberg; created by the Global Foreign Exchange Department, Mizuo Bank

Clear Trend of Safe-Haven USD Buying

USD buying has predominated in the forex markets ever since the U.S.-Israel attacks on Iran. Let us take a look, for instance, at forex market trends during the month or so immediately following the start of attacks. During the year or more immediately preceding the attacks (January 2, 2025 to February 26, 2026), USD had fallen against all currencies (even slightly against JPY). However, in the approx. one month since (February 27, 2026 to March 26, 2026), it has risen against all currencies except CAD (see graph), even including CHF, which had been showing solid momentum as the strongest currency. In addition, in recent years, the scarcity of precious metals, particularly gold, a stateless currency, has attracted attention as an alternative to USD, the world's reserve currency. However, in the approx. one month following the attack on Iran (February 27, 2026 to March 26, 2026), gold has fallen 17%, palladium 23%, platinum 24%, and silver 27% against USD. This month demonstrated that USD, the currency representing the unparalleled military might of the U.S., very much remains a safe-haven currency during times of war.
However, while the sharp decline in gold and precious metals after the attack on Iran might seem like a reaffirmation of USD's status as a reserve currency, this may not necessarily be the case. Historically speaking, it is not uncommon for highly liquid gold to be sold in exchange for USD as an initial reaction during times of great crisis. Given the actions of the Trump administration so far, there is no reason for the central banks of countries distant from the U.S. to stop increasing their gold reserves, given concerns about the possibility of USD being weaponized (financial sanctions). Industrial precious metals such as palladium and platinum may have been sold off in anticipation of a recession, but it is difficult to deny that gold's value as a stateless currency may still be in the midst of a medium- to long-term upward cycle.

De-Dollarization Trend Cannot be Denied Either

In the current situation, a de-dollarization trend cannot be denied either. I would like to encourage my readers to also refer to previous issues of this report, where I have discussed the reality of the de-dollarization trend, but even immediately following the attack, the U.S. 10-year Treasury yield remained unlikely to fall below 4% (see graph) in the bond market. While the impulse-driven forex markets do tend to prioritize safe-haven USD in cases involving armed conflict, it is reasonable to assume that the long-term erosion of USD's status as the reserve currency and the resulting de-dollarization due to the Trump administration's dangerous isolationism (Donroe Doctrine) will continue as an underlying trend.



(Source) macrobond; created by the Global Foreign Exchange Department, Mizuo Bank

In other words, <u>the safe-haven USD buying observed following the attacks on Iran may merely be a result of short-term liquidity acquisition taking advantage of geopolitical risks</u>. The Donroe Doctrine, while demanding allies shoulder higher shares of the defense burden, advocates massive tax cuts and infrastructure investment domestically, which is likely to structurally expand the U.S. budget deficit. <u>There remains the risk that true de-dollarization will accelerate when financial markets begin to separately evaluate U.S. hegemony (USD's status as a reserve currency) and U.S. solvency</u>.

Crisis for JPY and KRW

<u>Incidentally, it is worth noting that JPY and KRW have been weak both before and since the Iran attacks</u>. Perhaps currencies of countries heavily dependent on the U.S. for security (JPY, KRW, PHP, etc.) are more liable to being viewed negatively in times of crisis. However, since Asian currencies have not depreciated significantly since the start of the Iran conflict, it cannot be said that "a crisis in East Asia" is driving current forex market trends. Rather, it seems likely that Japan and South Korea are more vulnerable due to their high overseas dependence on resources, which directly translates into worsening trade balance fears for both countries during times of heightened geopolitical risk. However, in these volatile times, the likelihood of "becoming a party to the conflict" is also a sufficient reason to avoid a country's currency. Amid a growing focus on de-dollarization due to the Donroe Doctrine, it is not surprising that JPY and KRW might not be actively chosen if Japan and South Korea are seen as likely to become parties to conflict over Taiwan or in the Korean Peninsula.

I have summarized ongoing forex market trends as fluctuating between "short-term panic response (buying USD)" and "long-term structural distrust (de-dollarization)." If JPY, which was not bought much in the former context, is also unlikely to be bought in the latter, then it seems there are few factors that could reverse its current decline.

U.S. Monetary Policy Now and Going Forward – Fading Rate-Cut Prospects

One Interest Rate Cut at Best

At its March 17-18 FOMC meeting, for the second time in a row, the Fed decided to keep the federal funds (FF) target range unchanged at 3.5-3.75%. While Fed Governor Stephen Miran cast an opposing vote, seeking an interest rate cut instead, Governor Christopher Waller, who had opposed keeping the rate range unchanged until the previous meeting, voted in favor this time. The median of FF rate range projections by FOMC members (dot plot) has continued to indicate the possibility of one interest rate cut by the end of 2026 since the December meeting. Further, despite the upward revision of the inflation outlook in the Summary of Economic Projections (SEP) in response to the recent surge in crude prices, growth rate projections are slightly higher and unemployment rate projections remain flat, <u>so there is no significant change in the assessment of underlying economic trends</u>. Fed Chair Jerome Powell also emphasized that the economy was in good condition and stated that there will be no interest rate cuts as long as companies continue to pass the burden of tariffs on to consumers. <u>If, in addition to the surge in crude prices, supply chains are also disrupted, this point will become all the more significant</u>.

Policy Interest Rate Outlook as of Each Year End (Median Estimate)

FOMC Date	2026	2027	2028	Longer run
Mar-25	3.375%	3.125%	—	3.0000%
Jun-25	3.625%	3.375%	—	3.0000%
Sep-25	3.375%	3.125%	3.125%	3.0000%
Dec-25	3.375%	3.125%	3.125%	3.0000%
Mar-26	3.375%	3.125%	3.125%	3.1250%

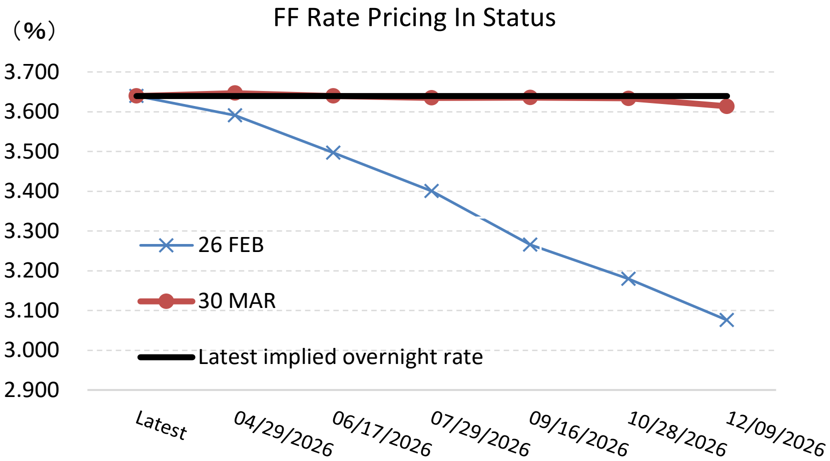
(Source) FRB ; created by the Global Foreign Exchange Department, Mizuo Bank

Looking at the dot plot distribution, at least 7 out of 19 members oppose interest rate cuts this year, 7 support one cut, and 5 (including Miran) support two or more cuts. <u>It is clear that the FOMC as a whole is moving towards a consensus</u>

of “at most one interest rate cut” this year. Incidentally, Powell has stated that he has “no intention of leaving” the board until the investigation against him is concluded, so his influence is likely to continue for the time being. Under these circumstances, it seems unlikely that the current vote count will change significantly even after Kevin Warsh takes office as the new Fed Chair in June. In other words, expectations of higher U.S. interest rates are likely to strengthen.

JPY Depreciation Risk Brought Forward

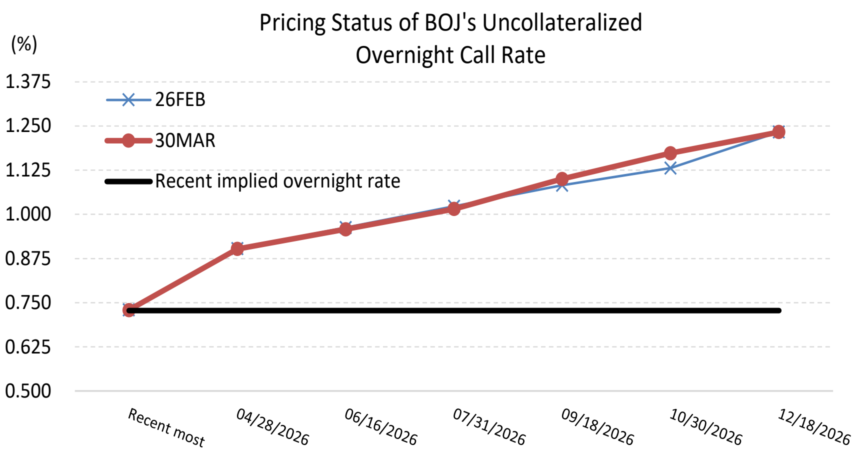
Financial markets are experiencing significant share price corrections amid concerns about persistently high U.S. interest rates. Going by the pricing in the interest rate futures market (details later), BOJ-related expectations remain largely unchanged, but markets have priced in an ECB switch from a rate-cut to rate-hike phase. Similarly for the Fed, while the shift to a rate-hike phase may not have been priced in yet, one could say expectations for rate cuts have receded significantly, with the majority of market players now expecting the status quo to be maintained for the remainder of the year (see graph). Depending on near-term developments in the Middle East, rate-hike expectations could emerge for the Fed similar to the ECB. In this regard, Powell said in his recent press conference, “The possibility (…) that our next move might be an increase did come up at the meeting, as it did at the last meeting. The vast majority of participants don’t see that as their base case, and, of course, we don’t take things off the table,” making no secret that the FOMC is discussing the need for rate hikes. Given that such discussions have taken place at the last two meetings in a row, it could even be that rate hikes are being seen as a more realistic option than rate cuts, and one could be forgiven for thinking that the rate-cut phase is nearing its end. It is unclear to what extent Warsh, the incoming chair, will take President Donald Trump’s intent into account, but judging from current voting behavior, there is no sense that his inauguration will result in a sharp dovish shift in the Fed’s stance, nor does an economic imperative for this seem to exist at this time.



(Source) Bloomberg; created by the Global Foreign Exchange Department, Mizuo Bank

How will Markets Revise BOJ-Related Expectations

USD appreciated in the forex markets following the meeting. As of the time of writing, USD/JPY is already approaching 160, not just due to Japan-side factors, such as the prospect of its trade deficit widening as oil prices surge in the wake of the Iran attacks, but also due to speculation of a potential increase in the domestic-foreign interest-rate differential. Since last year, I have warned in this report that the biggest JPY depreciation risk factor is the Fed and ECB switching to rate hikes starting 2H of this year to early 2027. Given that the Fed, far from implementing consecutive rate cuts, is discussing the possibility of rate hikes, it seems that the Iran conflict has not just made this report’s JPY-depreciation risk scenario more real, it has also brought it forward. If the BOJ keeps up its usual practice of taking at least six months to a year to contemplate its next move, JPY selling driven by the domestic-foreign interest-rate differential is liable to increase, leading to a very significant risk of JPY depreciation.



(Source) Bloomsberg; created by the Global Foreign Exchange Department, Mizuo Bank

Under such circumstances, the BOJ, under Governor Kazuo Ueda, must make the tone of its communications more hawkish from April onward if it wants to check further JPY depreciation. However, as I have already said, the market’s BOJ-related expectations following the Iran attack remain completely unchanged. This is in stark contrast to expectations of a more hawkish stance from the ECB and the Fed (see graph). While such market expectations are understandable in Japan, where rising oil prices are severely worsening the real economy through deteriorating terms of trade, a dovish posture adopted by the BOJ could well lead to a similar situation as that seen after March 2022.

Risks to My Main Scenario – Households Retain Huge JPY-Selling Potential

A Year of Optimizing for Inflation

Regarding the BOJ's Flow of Funds Accounts (as of the end of December 2025), the headlines highlighted that household financial assets, boosted by rising stock prices and other factors, had reached a record high of JPY2,351 trillion. In terms of a breakdown by category, "equity and investment fund shares" accounted for 14.5% of household assets, a record high and close to double the level seen quarter of a century ago (8.6%). On the other hand, during the same period, cash and deposits (excluding foreign currency deposits, hereinafter simply referred to as cash and deposits) fell from 53.6% to 48.2%, and government bonds, etc., fell from 3.4% to 1.5%, by more than 50%, indicating a clear shift from risk-free to risky assets within domestic assets (JPY-denominated assets in the chart below). Further, as part of the increase in risky assets, foreign currency-denominated assets, mainly investment funds, also surged from 1.2% to 5.5%. These trends align with the increased flow of funds into domestic and foreign equities, and investment funds targeting foreign currency-denominated securities spurred by the New NISA program.

As I have argued before in this report, Japanese households are transitioning from optimizing for deflation to optimizing for inflation. Incidentally, as of the end of December 2024, equity and investment fund shares accounted for 12.5%, while foreign currency-denominated assets accounted for 4.9% of household assets, so the household sector's asset management trends have steadily moved away from deflation-optimal even in just the past year.

Composition of Japanese Household Financial Assets (as of the end of DEC 2025)

	Amount (Tril Yen)	Share (%)
Total assets	2,350.9	100.0
Foreign currency nature	129.9	5.5
Foreign currency deposit	7.6	0.3
Foreign investment in securities	47.3	2.0
Investment trust	75.0	3.2
Yen character	2,221.0	94.5
Cash and deposits (excluding foreign currency deposits)	1,132.4	48.2
Government bonds, etc.	34.4	1.5
Stocks and investments	341.6	14.5
Investment trusts (excluding foreign currency portion)	94.7	4.0
Insurance and pension reserves	581.2	24.7
Deposits, etc.	36.8	1.6

Composition of Japanese Household Financial Assets (as of the end of DEC 2000)

	Amount (Tril Yen)	Share (%)
Total assets	1,408.9	100.0
Foreign currency nature	16.4	1.2
Foreign currency deposit	3.8	0.3
Foreign investment in securities	6.3	0.4
Investment trust	6.3	0.4
Yen character	1,392.5	98.8
Cash and deposits (excluding foreign currency deposits)	755.1	53.6
Government bonds, etc.	48.1	3.4
Stocks and investments	121.2	8.6
Investment trusts (excluding foreign currency portion)	49.2	3.5
Insurance and pension reserves	375.5	26.7
Deposits, etc.	43.5	3.1

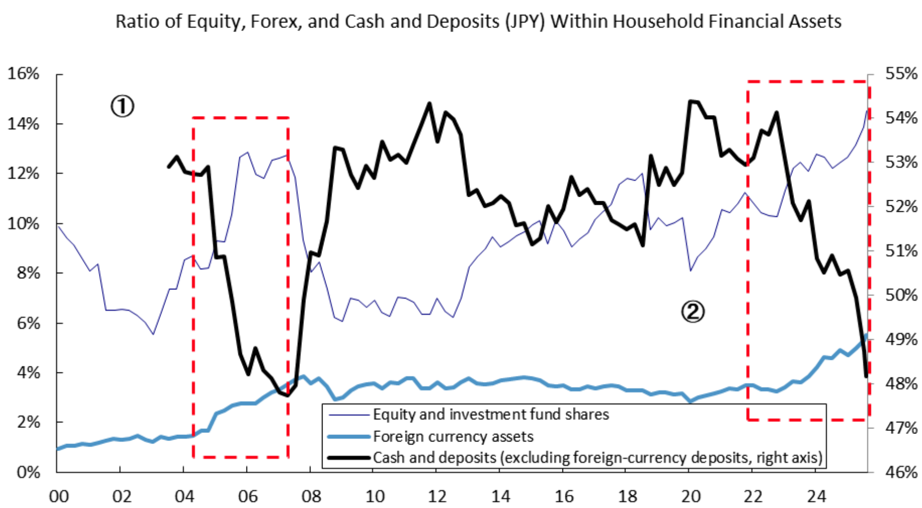
Changes from the end of DEC 2000 to the end of DEC 2025

	Amount (Tril Yen)	Share (%)
Total assets	942.0	
Foreign currency nature	113.5	4.4
Foreign currency deposit	3.7	0.0
Foreign investment in securities	41.0	1.6
Investment trust	68.8	2.7
Yen character	828.6	▲ 4.4
Cash and deposits (excluding foreign currency deposits)	377.3	▲ 5.4
Government bonds, etc.	▲ 13.7	▲ 1.9
Stocks and investments	220.4	5.9
Investment trusts (excluding foreign currency portion)	45.5	0.5
Insurance and pension reserves	205.7	▲ 1.9
Deposits, etc.	▲ 6.6	▲ 1.5

Source: Bank of Japan's "Flow of Funds Statistics"; created by the Global Foreign Exchange Department, Mizuo Bank

Difference Compared With 2007

Incidentally, 48.2% for cash and deposits is close to the record low of 47.7% at the end of June 2007. This was just before the global financial crisis triggered by the collapse of Lehman Brothers (before what is commonly known as the BNP Paribas shock), and the Japanese economy was often described as experiencing a JPY depreciation bubble (period (1) in the figure). With JPY depreciating and stock prices appreciating simultaneously, it was a period characterized by an increase in the ratio of equity, investment, and foreign currency within household financial assets. Monthly-distribution type investment funds that included overseas bonds (Global Sovereign Open) attracted attention and were doing very well, similar to the Orkan investment fund now. One suspects that it was a major factor in pushing up the ratio of foreign currency assets at that time. A similar phenomenon is occurring now (period (2) in the diagram), but there is one big difference – in 2007, JPY depreciation was driven by speculative JPY selling (JPY carry trade) to profit off domestic-foreign interest-rate differentials under trade surplus conditions; now, JPY depreciation is driven by real demand under trade deficit conditions. The former was based on offsetting trades, while the latter is based on outright (buy-or-sell) transactions. This situation, described as structural JPY depreciation, is undeniably influencing household investment sentiment, as can be seen from investment behavior since the launch of the New NISA program.

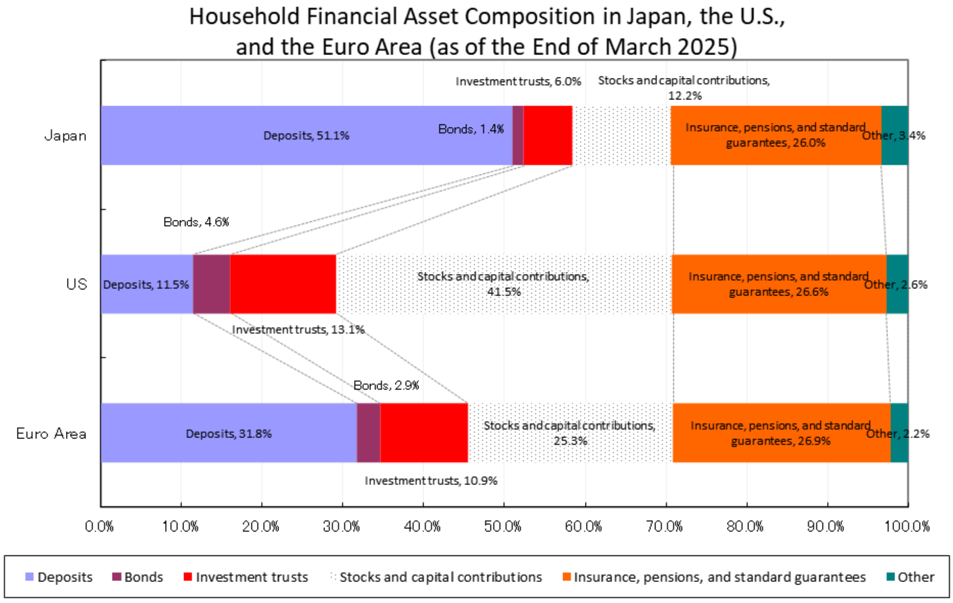


(Source) Bank of Japan, created by the Global Foreign Exchange Department, Mizuho Bank

Currently, the ratios of all asset classes – cash and deposits, government bonds, equity and investment fund shares, and foreign currency assets – are approaching their 2007 peaks (or valleys). However, given current economic and financial conditions, such movements are inevitable as part of a shift from optimizing for deflation to inflation, and the 2007 levels should be viewed as a milestone rather than a benchmark.

Cash and Deposits Available for Investment

Considering that cash and deposits are the source of investment capital for risky assets (such as equity and foreign currency assets), the extent to which their ratio within household assets can decline is a crucial matter. In this regard, based on figures as of the end of March 2025, the U.S. is extremely low at 11.5%, while the euro area sits between Japan and the U.S. at 31.8% (see graph). For a cash and deposit ratio similar to that of the euro area, an adjustment of over 16 pp (48.2% - 31.8% = 16.4%) would be necessary. This corresponds to a capital shift of over JPY380 trillion (approx. JPY2,351 trillion x 16.4% ≈ JPY386 trillion). Even if only a third of this (approx. JPY386 trillion x 33% ≈ JPY128.5 trillion) is allocated to foreign currency assets, it would represent a potential sale of nearly JPY130 trillion. Considering the 2007 level to be merely a milestone toward the future, the impact of a capital shift of this magnitude on interest rates, exchange rates, and stock prices would have to be discussed thoroughly. Of course, this is not expected to happen overnight, but even assuming it happens over the course of 10 years, it would amount to a yearly sale of nearly JPY13 trillion, but in reality, it might happen even faster.



(Source) Bank of Japan, FRB, ECB; created by the Global Foreign Exchange Department, Mizuo Bank

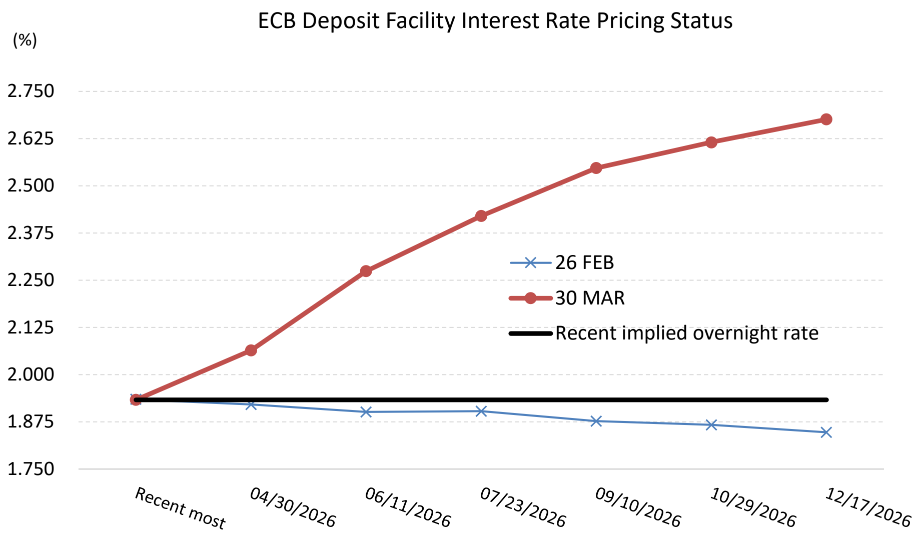
At any rate, it is dangerous to prioritize the qualitative interpretation that foreign currency investment is unlikely to increase further simply based on USD/JPY remaining stubbornly high at around 160. It should be noted that Japanese households' penchant, until recently, for holding a large proportion of their assets in cash and deposits was based on the theoretically justifiable investment appeal of deflationary currencies appreciating. Indeed, JPY largely appreciated over the course of 40 years starting 1973, so cash and deposits performed well against foreign currencies for a long time (although buying U.S. stocks was still more rewarding). However, we are now in a phase where chronic inflation rather than deflation is the main concern. The cost of holding cash and deposits, therefore, inevitably becomes problematic. Over the past four years, households have keenly felt the cost of JPY weakness and been forced to seek ways to mitigate it, and the result is the record-high ratios of equity and foreign currency assets within household assets – it is important to get the cause and effect right.

EUR Outlook – Dramatically Different Expectations from ECB

EUR Area Monetary Policies Now and Going Forward – ECB Responds to Changes in the Global Environment

Sudden Shift in Expectations

The March 19 ECB Governing Council meeting kept policy interest rates unchanged for the sixth consecutive meeting. As anticipated, however, the resource price surge triggered by the attack on Iran has clearly intensified concerns about prospective inflation rates and, at the time this article was written, the markets had shifted to pricing in approximately 2.5 rate hikes this year, down from pricing in a full three hikes on the March 20, immediately following the Governing Council meeting. Compared to the period just before the Iran attack (February 26), when slightly less than one interest rate cut was priced in, the world has dramatically changed. There is also a shift toward hawkish expectations with respect to the Fed, and the persistent wartime "safe-haven USD buying" trend has depressed EUR/USD from around 1.18 before the conflict to around 1.15.



(Source) Bloomsberg; created by the Global Foreign Exchange Department, Mizuo Bank

The Governing Council meeting's statement clearly warns of upside risks to inflation, noting that – "The increase in energy prices caused by the war will drive inflation above 2 per cent in the near term. If persistent, higher energy prices may lead to a broader increase in inflation through indirect and second-round effects[.]" A day after the meeting, on March 20, German Bundesbank President and ECB Governing Council member Joachim Nagel referred to this passage in a speech, acknowledging that – "Monetary policy cannot prevent a short-term rise in inflation resulting from an energy price shock. However, it must act when second-round effects become apparent and longer-term inflation expectations rise above the inflation target, because then high inflation threatens to become entrenched." He was referring to the same trends seen in the euro area after March 2022, and it is unlikely that the Governing Council will abandon its hawkish stance for the time being, given the lessons it learned while dealing with those trends. This is clear even without focusing on the fact that President Nagel is a German and one of the most hawkish Governing Council members.

Differences between Current and 2022 Situations

The comparison with 2022 was also a topic of discussion at the post-Governing Council meeting press conference. The third reporter to pose a question asked very directly – "How are the lessons of the 2022 inflation shock informing your approach to the current crisis? You've said in the run-up to the meeting that you won't allow the same kind of inflation to materialise again, so I'm wondering whether your threshold is lower than in the past and potentially also a bit closer?" On this point, ECB President Lagarde emphasized the difference between current conditions and those in 2022, stating – "I think we are well positioned, and I would call it the "three times two". 2% inflation at or around target in the medium term, 2% medium-term inflation expectations, and 2% [deposit facility] interest rates." She is probably correct to appraise the current situation as being considerably less severe than that in 2022, when there was already a risk of inflation becoming uncontrollable, and to anticipate that dealing with the current situation will not require extreme measures.

President Lagarde went on to say that – "I think the labour market is also quite a bit different. [...] The fact that we have a labour market which is solid but not as hot as it was back in 2022, where we had shortages of labour and a different bargaining position, will also play a role." She was suggesting that while the current labor market remains robust, the labor supply/demand situation is not as tight as it was then, so conditions are not conducive to sharp wage increases. This is undoubtedly true for the most part. Furthermore, given that in 2022 pandemic-related measures forcing economic activity shutdowns suppressed demand and generated explosive inflationary pressures, it is clearly true that the current situation is not as serious as it was then.

But is should be remembered that inflation expectations are liable to change owing to diverse factors. President Lagarde noted this, saying – "A caveat though: inflation expectations have a lot to do with the memory that people and corporates have of inflation. And back in 2022 the memory was dating way back. Now the memory is rather fresh because people have seen inflation." In 2022, the combination of pandemic and war somewhat forcibly raised inflation expectations. Prior to that, not only the euro area but the entire world had long been enjoying a period of "growth without inflation", while at this point even Japan is witnessing the normalization of inflation. President Lagarde made an important point in this regard, saying – "the reaction function that [people and corporates] will have in terms of investment, in terms of wage negotiations and in terms of consumption is going to be informed by a fresher memory of inflation that went high and that we managed to bring back to 2%." Given that economic actors have already been conditioned to anticipate a possibility that prices and wages may well rise and they are now facing another war-related natural resource price-related shock, there is no guarantee that the inflation expectations situation will not change abruptly at a pace equal to or greater than that seen in 2022.

A Risk Scenario Could Double the Inflation Rate

Just as it did with respect to last year's reciprocal tariff shock situation, the ECB has prepared staff projection sub-scenarios (adverse and severe scenarios) to envision the effects of different degrees of acute shocks stemming from sharp surges in prices of oil and natural gas. This is a more market-friendly approach than that of the Fed or the BOJ, and President Lagarde noted at the press conference that – "I feel very proud of our staff [...] because I don't think that there are many other central banks that have had the courage to try to cut off at 11 March and produce the set of data that we have had available." The adverse and severe scenarios are defined as follows:

- **Adverse scenario: this assumes that in the second quarter of 2026 40% of oil and LNG flows transiting through the Strait of Hormuz are disrupted, primarily because of a blockade of the Strait, without major damage to energy infrastructure (beyond what has already occurred). This leads to a significant increase in commodity prices and a temporary rise in financial market uncertainty. The disruptions are assumed to persist until the third quarter of 2026, after which supply volumes normalise. As the disruption is assumed to reflect a blockade rather than destruction of infrastructure, supply recovers relatively quickly once the restrictions are lifted.**
- **Severe scenario: this assumes a more intense and prolonged disruption than in the adverse scenario. The shock to the energy supply is larger, with 60% of oil and LNG flows (in the second quarter) transiting through the Strait of Hormuz assumed to be disrupted. In addition, part of the disruption is assumed to result from military action that damages energy infrastructure, delaying the restoration of supply. As a result, supply volumes only begin to return to normal in the first quarter of 2027 and this normalisation proceeds more gradually than in the adverse scenario. Uncertainty increases more sharply and is more persistent.**

Based on these assumptions, energy prices in the adverse scenario (2026 2nd quarter/2028 4th quarter) are projected to be USD119/70 per barrel for crude oil and EUR87/24 per megawatt-hour (MWh) for natural gas. In the severe scenario, crude oil is projected to be USD145/103 and natural gas EUR106/43. The real GDP growth and Harmonised Index of Consumer Prices (HICP) inflation rate projections made based on these assumptions are shown in the table below. While news headlines are highlighting the risks of more-rapid inflation rates in the two sub-scenarios, it is worth noting that the baseline scenario inflation rates have already been revised upward from the previous forecast (released in December). Regarding 2026, the real GDP growth rate has been revised downward from +1.2% to +0.9%, while the HICP growth rate has been revised upward from +1.9% to +2.6% on an overall basis and from +2.2% to +2.3% on a core basis. Even as of March 4, it appears that concerns about euro area stagflation had increased somewhat. Furthermore, the rate of growth in overall basis HICP is projected to accelerate further during 2026 to +3.5% in the adverse scenario and +4.4% in the severe scenario. If inflation reaches such levels, the current market expectation of "2.5 interest rate hikes" may not be sufficient. While the likelihood of a 2022-type crisis is not high, it cannot be ruled out entirely. In any case, even under the baseline scenario, the outlook for a deterioration in the euro area's current account and trade balances remains firm, making a downward revision of the EUR exchange rate forecast unavoidable.

ECB Staff Macroeconomic Projections as of March 2026

Item	Year	(Baseline) as of Dec 2025	(Baseline) as of March 2026	Averse scenario	Severe scenario	Forecast as of deadline on March 4
Real GDP	2025	1.4	1.5	1.5	1.5	1.5
	2026	1.2	0.9	0.6	0.4	1
	2027	1.4	1.3	1.2	0.9	1.4
	2028	1.4	1.4	1.6	1.9	1.5
HICP	2025	2.1	2.1	2.1	2.1	2.1
	2026	1.9	2.6	3.5	4.4	2.3
	2027	1.8	2	2.1	4.8	1.9
	2028	2	2.1	1.6	2.8	2
Core HICP (aggregate minus food and energy)	2025	2.4	2.4	2.4	2.4	2.4
	2026	2.2	2.3	2.4	2.6	2.2
	2027	1.9	2.2	2.7	3.9	2
	2028	2	2.1	2.1	2.9	2.1

(Source) ECB; created by the Global Foreign Exchange Department, Mizuo Bank

EUR Area Politico-Economic Situation Now and Going Forward – Discontinuation of Nuclear Power Phase-Out Policy

EU Announces Departure from Nuclear Power Phase-Out

Speaking at an international conference in Paris on March 10, European Commission President von der Leyen reflected on nuclear power, stating – "I believe that it was a strategic mistake for Europe to turn its back on a reliable, affordable source of low-emissions power." – and she emphasized Europe's potential to lead the current nuclear tech race, stating – "We have the ambition to move at speed and scale for Europe to be a global hub of next-generation nuclear energy." This marks a sharp break from the previous policy of phasing out nuclear power. In recent years, concerns have frequently been raised that the EU's policies on diversity and environmental protection are unsustainable from the perspective of economic security. In fact, individual EU countries have already begun distancing themselves from the EU policies, so President von der Leyen's recent statement can be seen as an acknowledgment of the current reality.

In February 2025, for example, Italy's government led by Prime Minister Meloni reversed the country's 1987 policy of phasing out nuclear power and approved a bill to revive nuclear power. Belgium also reversed its nuclear phase-out policy in 2025 and repealed a law prohibiting the approval of new nuclear power plants, thereby shifting to a system in which new nuclear power plant construction is possible. Similar trends can be observed in Sweden, Lithuania, and Switzerland, and Poland is set to begin construction on its first nuclear power plant this year. In short, President von der Leyen's recent speech was an affirmation of the status quo, and it can be seen as a major turning point for the EU, as it officially acknowledges the fact that the idealism was being defeated by reality.

The EU's energy policy – often derided as a manifestation of "extreme environmentalist ideology" – began to falter following the outbreak of the war in Ukraine in 2022. The loss of a supply of inexpensive Russian natural gas, and the subsequent completion of Germany's nuclear phase-out (and worsening relations with China) from 2023 onwards, meant the EU lost a major economic growth engine. Maintaining the ideal of "phasing out nuclear power and promoting renewable energy" will require considerable economic resources, but it is now evident that the EU – with Germany entering a prolonged period of economic stagnation and France mired in political turmoil – lacks those resources. A return to nuclear power – which can supply a minimum level of electricity regardless of weather or season – is a rational option, but it risks continuing to spark ideological conflicts within the region. In particular, the anti-nuclear movement appears to have sustained a strong support base among both left- and right-leaning voters within Germany.

However, the fact acknowledged in President von der Leyen's speech is that for the EU economy to survive, there is a need for a return to a pragmatic approach centered on nuclear power. Financial market participants need to consider the economic and financial implications this policy turning point will have in the near future as well as over the long run.

Prospective Easing of Resource Supply/Demand Situations?

What impact might Europe's shift away from its anti-nuclear policy have on the economic and financial landscape? From a medium- to long-term perspective, there are numerous points worth considering about such a shift, but this article will focus on three points: (1) easing fossil fuel market supply/demand situations, (2) reducing the EU's dependence on the United States, and (3) improving the EUR supply/demand situation.

First, the potential for easing fossil fuel market supply/demand situations is intuitively obvious. If the EU's energy needs undergo a fundamental shift, there will be significant changes in the global energy supply/demand structure, and it will be inevitable that resource prices adjust accordingly. President von der Leyen has spoken of promoting next-generation nuclear technologies, including small modular reactors (SMRs), and one can anticipate that financial markets will react to this supportive government posture by gradually but steadily creating large-scale capital inflows into related sectors. It will be worth watching to see if this signals a resurgence of nuclear power as a major medium- to long-term investment theme.

If the proportion of nuclear power in the EU's power generation mix increases, the shares of liquefied natural gas (LNG) and other expensive power sources will naturally decrease. This development is expected to help reduce the tightness of the global LNG supply/demand situation. Following the outbreak of the Ukrainian War and Germany's completion of its nuclear phase-out, the EU had to scramble for LNG supply sources around the world as an alternative to nuclear power, but this situation will inevitably ease. The current situation in the Middle East and other factors make predicting LNG price trends difficult, but a situation in which everyone anticipates a medium- to long-term decline in EU demand is likely to place a certain amount of downward pressure on prices. This would be welcome news for Japan and other Asian countries that rely on imports for the majority of their energy. For example, LNG accounted for 5% of Japan's imports in 2025, and a decrease in LNG unit prices could help moderate the JPY supply/demand structure "distortion" that underlies JPY's recent weakness.

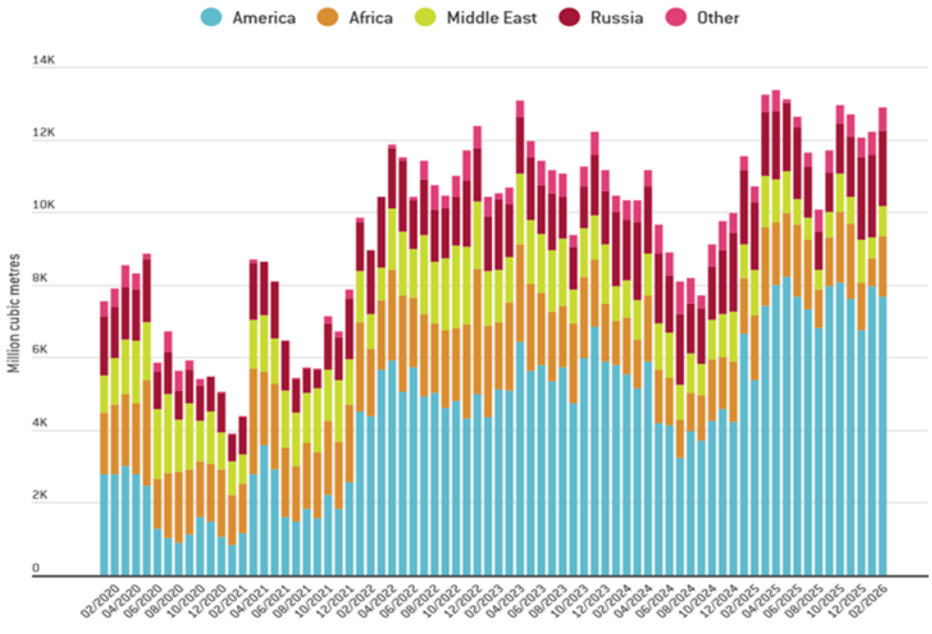
Reducing Dependence on the United States

Second, one should not overlook the significance of reducing dependence on the United States, which is a particularly prominent issue from the perspective of the forex market. Previous editions of this article have consistently argued that European efforts to reduce dependence on the United States across various sectors tend to be quite well-received in financial markets. Exactly one year ago, the EU held an extraordinary summit and launched a EUR800 billion European rearmament plan. This plan and the issuance of joint bonds as an associated financing method were viewed favorably as factors liable to enhance EUR's status as a reserve currency, and I believe this is one of the primary reasons that EUR/USD has remained firm over the past year. The European rearmament plan aims to reduce military dependence on the United States, and the revival of nuclear power promotion programs would serve the same purpose in the energy sector.

President von der Leyen's recent speech appeared to signal a commitment to reducing Europe's energy-related dependence on the United States, and it can be viewed as a long-term strategic move to enhance EUR's presence as a counterweight to USD. The euro area currently relies on the United States for resources – particularly energy – to an extremely high degree, and the level of dependence has surged the since the Ukraine War started in 2022. The graph on the right, based on Bloomberg statistics updated by the Bruegel think tank, shows trends in the EU's LNG imports by region of origin[1]. The graph shows that, prior to 2022, the EU obtained LNG from diverse sources including those in Russia, the Middle East, and Africa. In addition, inexpensive Russian natural gas supplied directly via pipelines (such as Nord Stream) supported the competitiveness of European manufacturing industries, particularly in Germany. The precariousness of this situation had been pointed out even before the Ukraine War. In 2018, President Trump told German Chancellor Merkel that – "Germany, as far as I'm concerned, is captive to Russia because it's getting so much of its energy from Russia." – but the situation remained unchanged until the Nord Stream 1 and 2 pipelines were heavily damaged by underwater explosions in September, 2022. Europe's imports of U.S. LNG have rapidly surged since that time, and it can be said that the EU was forced to deepen its dependence on the United States as a price for escaping the geopolitical threat posed by Russia.

Figure 4: EU LNG monthly imports by region of origin

Last updated: 05/03/2026 (updated every month)



Source: Bruegel based on Bloomberg

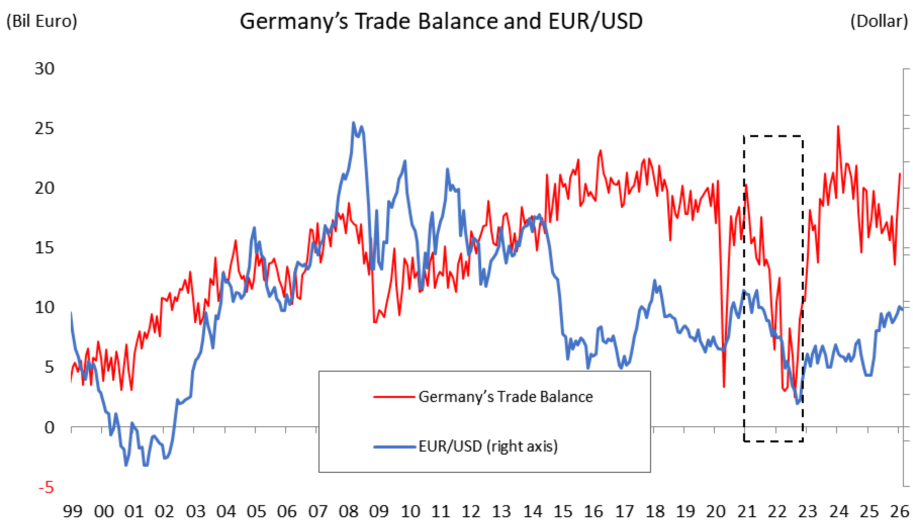
Note: America represents the sum of the United States of America and Trinidad & Tobago. Africa is the aggregate of Algeria, Angola, Nigeria, Egypt, Cameroon and Equatorial Guinea. The Middle East displays the sum of Qatar, Oman and United Arab Emirates. The Other category is the sum of LNG from Argentina, Australia, Brazil, China, Indonesia, Jamaica, Malaysia, Norway, Peru, Singapore, South Korea and the United Kingdom.

In November 2023, we changed the conversion factor from Mt to bcm to 1.38

Although natural gas is a commodity, Europe's procurement costs for Russian and U.S. natural gas differ significantly. Russian gas transportation costs were extremely low because of the use of international pipelines physically connected to customers' domestic pipelines. <u>On the other hand, importing LNG from the United States requires a massive investments in the processes and infrastructure needed to cool and liquefy the gas, transport it across the Atlantic in specialized tankers, and then vaporize it again at European ports</u>. Europe's increasing resource-related dependence on the United States means that the EU is continuously paying high energy procurement prices, and that affects the EUR supply/demand situation in a way that promotes EUR depreciation.

A Factor that Structurally Strengthens EUR

<u>In view of the above, it clear that nuclear phase-out policy abandonment will undoubtedly reduce EUR's structural vulnerabilities</u>. Though not as high as Japan's, the euro area's high level of external resource procurement dependence contributes to a fundamental EUR supply/demand structure vulnerability. <u>The pattern (currently unfolding) in which resource prices surge every time a crisis arises, causing a renewed surge in euro area inflation rates along with deterioration in the region's current account balance is one of EUR's chronic weaknesses that must be remedied to some extent if EUR is</u>



(Source) macrobond;; created by the Global Foreign Exchange Department, Mizuo Bank

[1] Bruegel, European natural gas imports, https://www.bruegel.org/dataset/european-natural-gas-imports, accessed March 31, 2026

to strengthen its status as a reserve currency second only to USD. The seriousness of this weakness was seen in 2022, when a sharp rise in natural gas prices wiped out Germany's trade surplus and caused EUR/USD to fall below parity (see graph on previous page). Currently, one should be wary of the potential for a similar situation, depending on the denouement of the Iran situation and how that situation affects future resource price trends. If restarting the operation of existing nuclear power plants and construction of new plants can stabilize euro area electricity costs, the regional economy's resilience to external shocks will increase dramatically. Retaining within the region EUR that were previously flowing out as fossil fuel payments will help create a EUR supply/demand situation that supports EUR exchange rates – a fundamental structural strengthening of EUR exchange rates.

As mentioned above, the forex market continues to react to wartime contingencies by generally favoring the approach of seeking a safe haven in USD. Given the second Trump administration's precipitous actions, however, it is impossible to predict when "USD weaponization" might be used to impose unreasonable conditions on countries around the world, and consciousness of this danger has been making USD's dominance somewhat more precarious. The United States has since 2022 served as Europe's alternative resource source, enabling a great reduction in the region's dependence on Russia, but if Europe concludes that it would be dangerous to be overly dependent on U.S. resource supplies, then a decision to revive nuclear power capabilities is an inevitable consequence.

Perspective on Green Investment also Shifting

It is expected that there will be some changes in the nature of what Europeans consider optimal energy systems, and there are also expectations that European energy-related investment projects may have the effect of strengthening EUR. Until now, Europe has been a principal driving force behind investments in green energy systems, but the region's changing perspective on energy could force a redefinition of Environmental, Social, and Governance (ESG) investment, which has grown to become a major financial industry sector. Nuclear power has been considered a gray area not clearly falling within or without the various European definitions of environment friendly economic activities. Reflecting those definitions, ESG investing in Europe has tended to be concentrated in such renewable energy projects as those focused on solar and wind power, and the nature of those definitions has even given rise to the problem of "greenwashing" (projects deceptively designed to seem more environment friendly than they actually are). Given that the EU has been the chief driving force behind efforts to define and promote environment friendly power systems, a European policy shift to reclassify nuclear power as essentially or effectively falling into the "clean energy" category could have far-reaching ramifications. It could enable and encourage institutional investors to expand their investments in nuclear power operators, uranium mines, nuclear waste disposal technology, stable power grid infrastructure, and other energy-related businesses previously excluded from their investment portfolios. This investment policy shift – combined with Germany's historic move last year to loosen and bypass its constitutional "debt brake" (Schuldenbremse) to allow for massive new borrowing in the 2026 budget and beyond – could attract significant capital to nuclear power projects under the banner of green infrastructure investment (although German politicians still generally oppose a revival of nuclear power).

Japan to be Inspired to Follow Suit?

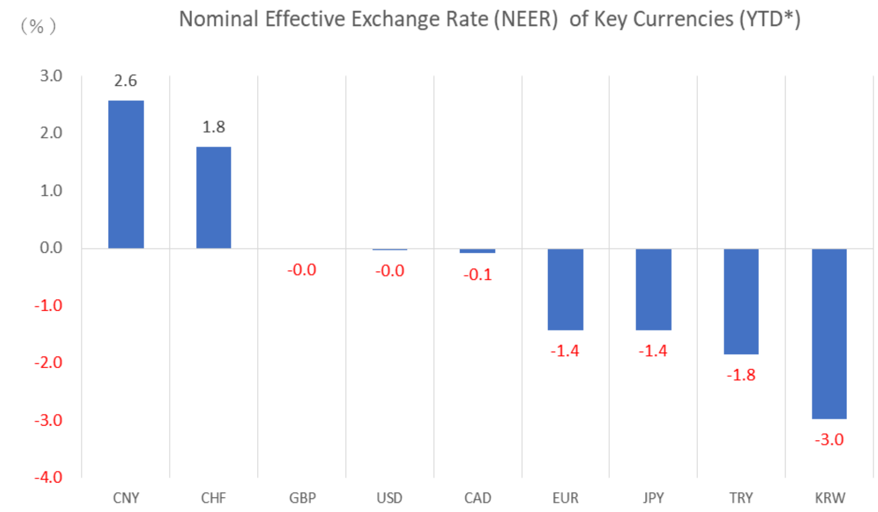
It will be interesting to see how Japan reacts to the EU policy shift. As many past editions of this article have argued, the primary cause of JPY's weakness lies in the fragility of the JPY supply/demand situation. Currently, mineral fuels account for approximately 20%–25% of Japan's imports, and energy price fluctuations can dramatically alter the country's balance of payments structure. There are many potential ways to significantly improve the balance of payments, and restarting nuclear power plants is clearly one of them. Given the situation in Iran and Japan's high level of dependence on the Middle East for energy imports, the issue of restarting nuclear power plants is likely to suddenly attract greater attention in Japan, and President von der Leyen's recent speech may serve as a catalyst to promote progress toward restarting nuclear power plants. As mentioned above, if crude oil prices remain around USD90 per barrel, it is estimated that the value of Japan's imports will increase by more than JPY5 trillion yoy, and that could cause the country's trade deficit to double yoy.

The EU has concluded that its policies requiring the rejection of nuclear power were "a strategic mistake". Europe is often criticized for its relaxed receptiveness to rapid rule changes, but that flexibility can also be seen as shrewdness and a source of resilience amid changing circumstances, and the fact that EUR has remained firm appears to reflect appreciation for that resilience. Japan is currently moving ahead with the restarting of nuclear power plants, although political and legal hurdles make it impossible to anticipate that the restarting process will be rapid. However, Japan' Basic Energy Plan, approved by the Cabinet a year ago, has been modified to make nuclear power utilization easier. The phrase "reduce reliance on nuclear power as much as possible", which was inserted into the plan after the Great East Japan Earthquake, has been removed, and other revisions to the plan are designed to facilitate the construction of new nuclear power plants. If domestic and international developments actually accelerate moves to revise Japan's power supply mix, that situation must be carefully taken into account in exchange rate forecasts.

Appendix: Robustness of CHF – Extent of Reliance on External Resources is Key

Struggling JPY and Euro

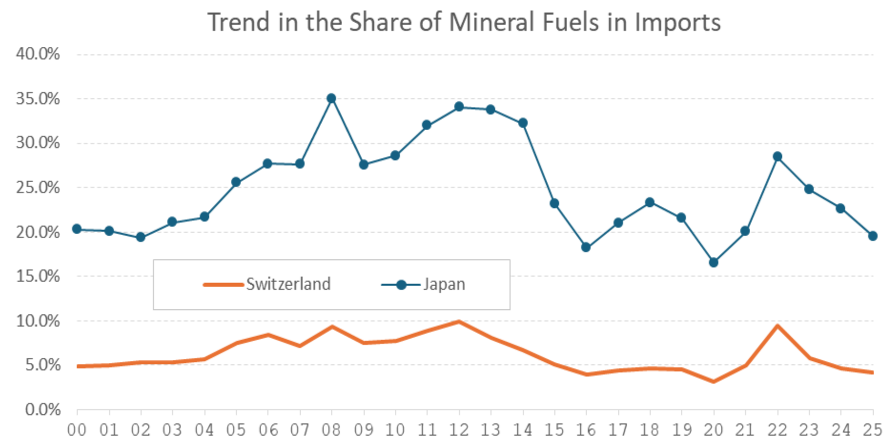
Following the attack on Iran on February 27, safe-haven USD buying has been raging in the forex market, with major currencies falling against USD across the board. The correction in gold prices continues, demonstrating the strength of USD during wartime. One might expect "JPY depreciation under USD weakness" to reverse in this situation due to a sense of Japan's shared fate with the U.S. However, JPY has not appreciated under USD strength, rather remaining stuck in the typical pattern of "JPY depreciation under USD strength." EUR (in addition to KRW) has also been forced into a decline similar to JPY, losing the momentum it had gained last year. The overwhelming impact of the recent Middle East conflict on the global economy is through soaring oil prices, which directly affect the Japanese and euro area economies. This has led to a common pattern of accelerated currency selling fueled by concerns about potential trade balance deterioration.



(Source) macrobond; created by the Global Foreign Exchange Department, Mizuo Bank
*From Dec 31, 2025 to Mar 17, 2026

Switzerland's Resilience to Resource Price Shocks

Amid all this, CHF remains strong on an effective basis, demonstrating considerable resilience to resource price shocks. There is no question that CHF's strength is partly due to Switzerland's permanent stance of geopolitical neutrality, which aligns with my earlier discussion of a potential for crisis in Asia as a detriment to Asian currencies. However, the robustness of Switzerland's supply and demand structure should also be taken into account. While energy accounts for approx. 20-25% of Japan's total imports and 15-20% of the euro area's imports, it accounts for a significantly smaller share in Switzerland's imports at approx. 4-6% (see graph). Switzerland draws approx. 60% of its domestic electricity from hydropower and 30% from nuclear power, demonstrating progress in decarbonizing its power generation mix. In the summer, Swiss hydropower generation is robust enough to allow it to export electric power, while in winter, it imports power from France and Germany. Therefore, Switzerland's energy imports are also quite affected by seasonality and overall European energy prices. However, compared to Japan and the euro area, the damage is undoubtedly more contained, and this seems to have a strong impact on the valuation of its currency. As mentioned above, the euro area (EU) declared a departure from its nuclear phase-out policy in March. It remains to be seen whether Japan, which has suffered particularly from the causal relationship between resource price shocks and currency depreciation compared to other major countries, will increasingly follow the example of other nations. One hopes for a more fundamental approach to correcting JPY weakness taking the example of CHF's strength and the EU's actions.



(Source) macrobond; created by the Global Foreign Exchange Department, Mizuo Bank
*Switzerland: Energy sources; Japan: Mineral fuels

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