Mizuho Brief: JPY

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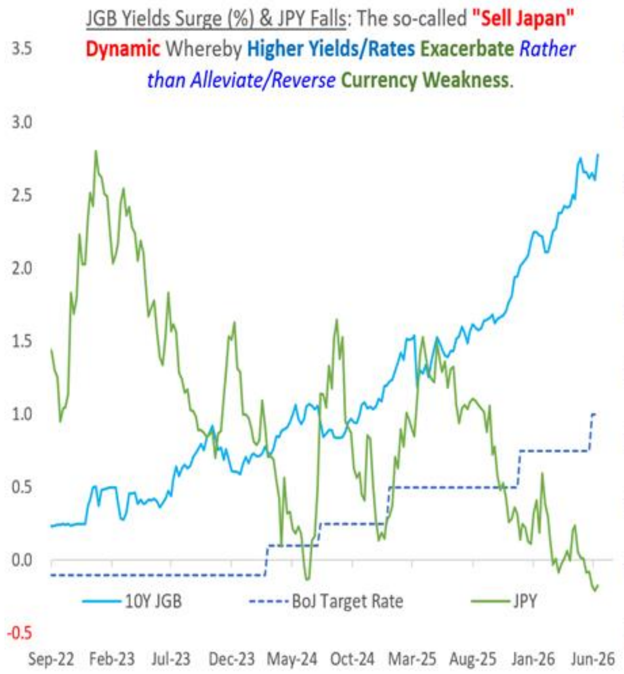
JPY: Stalling Bears, Not Seducing Bulls

In a Nutshell:

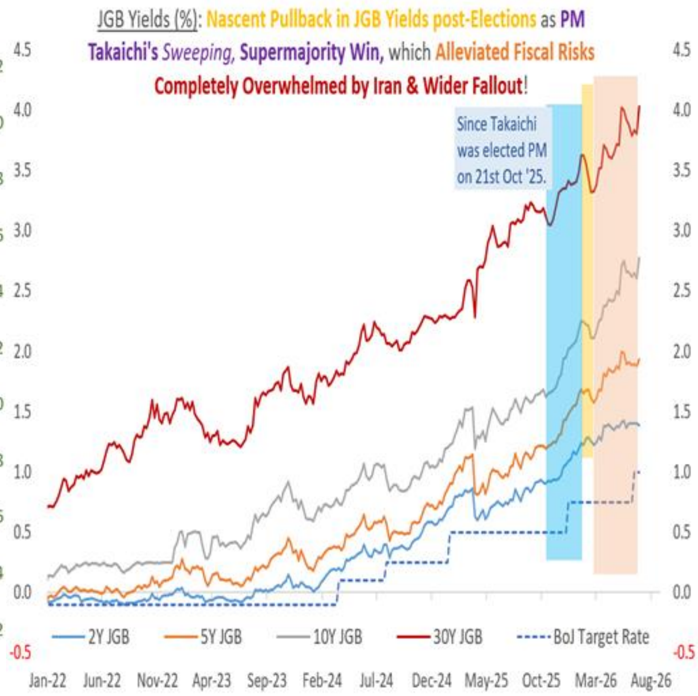
- **FinMin Katayama flagging potential for GPIF** and other Japanese real money **reallocation (back) to JPY assets** may merely **stall JPY bears, not seduce the bulls**.
- To be sure, **GPIF re-allocation**, unleashes *compelling, fundamental, real (money) forces* **that will eventually underpin** the **JPY**.
- **But** nevertheless, the **JPY may remain challenged**, if not compromised by the intervening triple whammy of;
  - a) Dynamic shifts in rate differentials/policy gaps that are **disadvantageous to JPY**, which *prolong JPY (and JGB) pain, deferring re-allocation* back to Japanese fixed income;
  - b) Adverse energy shocks and accompanying financial liabilities/risk re-pricing that **pressure the external/BOP position**, along with the JPY and;
  - c) Further geo-economic stress on JPY involving **extractive US global trade-security assaults on JPY**, including from lumpy and substantial outflows to “Pay America”.
- Conceivably, the **GPIF may choose to time allocations strategically rather than impulsively swim against the tide** of **conspiring JPY and JGB pressures**, diluting any imminent backstop.
- For now, it **may take an exogeneous tail wind** – from a sharp dovish Fed inflection and/or de-escalation in geoeconomic risks – **to resoundingly boost the JPY**.



- In theory, **FinMin Katayama flagging potential for GPIF** and other Japanese real money **reallocation (back) to JPY assets ought to arrest aggressive bearish JPY bets**.
- *Admittedly,* **given how far the JPY had weakened** (to test above 162) in the past few weeks, there are **low-hanging JPY gains from short-covering** and extended speculative bets.
- Especially ***if it coincides with solid inflows into Japanese equities*** amid more support in the JGB market.

- **But** even this **may only deter the most speculative end of the bearish spectrum**, *dampening USD/JPY elevation, **rather than decisively turn the tides** (sustained USD/JPY pullback).*
- In other words, merely **stalling JPY bears, not seducing self-sustaining bulls**.
- Whereas **for any profound JPY buoyancy impact** – *substantially and sustainably* lowering USD/JPY – the **bar for the GPIF backflow remains high**.
- For one, the recent sharp rise in front-end UST yields (not just nominal, but even more pronounced in real terms) **dampens, or at least defers, the case for absolute JGB yield levels -** titillatingly elevated as they may be – **to catalyze sustained lift in JPY**.
- Mainly as *markets may be holding out for further, unequivocally alluring return inducement* (to catalyze any self-sustaining pullback in USD/JPY).
- What's more, hawkish Fed sentiments - whether accurately perceived or not is beside the point - has **further setback BoJ (rate hike) backstops for JPY**.
- At the very least, it **shifts the goalposts for attaining JPY-neutral Fed-BoJ differentials**.
- In addition, problematically stubborn energy-shipping risks, **adversely impacting via net energy balance**, **margin pressures** and **(re-)insurance dynamics**, **suggest JPY undermined by external balance dynamics**.
- Unfortunately, the *rolling "Iran-Hormuz crisis" suggests* that these *adverse JPY pressures are not fully abating anytime soon.*
- Yet **another dimension of *previously unheard* geo-economic stress on JPY** is from extractive US global trade order upheaval that has *elicited ~US$550bn Japanese capex commitments in the US.*
- If these commitments are called in within President Trump's current term, the resulting **sizable outflows** may **challenge JPY stability**.
- Conceivably, the **GPIF may choose to time allocations strategically *rather than impulsively swim against*** *conspiring, self-reinforcing tides **of bearish JPY and JGBs**.*
- *In turn diminishing imminent backstop (and certainly, boost) that may be expected for the JPY from bets on GPIF reallocation.*
- All said, while **GPIF re-allocation** may unleash *compelling, fundamental, real (money) force* **that eventually underpin JPY** (and **help subdue JGB yields**), it may ***for the time being,*** be **compromised by headwinds from shifting rates/policy cycle conspiring with adversarial geo-economic/BOP shocks**.
- It may very well be that a **decisive break in bearish JPY and JGB dynamics might actually require exogeneous tailwinds** comprising a *sharp dovish Fed turn* and/or *de-escalation of geo-economic risks.*


Brent vs. USD/JPY (Logs): A Surge in Brent Prices from the "Iran Crisis" Underpinned Bearish JPY Bets & Undermined JPY Backstop Efforts by. But Oil Sliding Back Has Not Provided Impetus for Symmetric JPY Rebound.
Weaker JPY
Higher Oil
Stronger JPY
Lower Oil
Compared to de-coupling in UST-JGB spreads & USD/JPY in May 2025, this episode since mid-2025 has been deeper and more enduring.
Sources: Bloomberg, Mizuho
Log Oil
Log USD/JPY


JGB Yields (%): Nascent Pullback in JGB Yields post-Elections as PM Takaichi's Sweeping, Supermajority Win, which Alleviated Fiscal Risks Completely Overwhelmed by Iran & Wider Fallout!
Since Takaichi was elected PM on 21st Oct '25.
2Y JGB
5Y JGB
10Y JGB
30Y JGB
BoJ Target Rate

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