Mizuho Brief: JPY

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(An Exercise in) Decoupling JPY & BoJ?

- **JPY spiked >2%** (USD/JPY plunged below 160) **on** suspected, almost certain, **MoF intervention during yesterday's New York session**.
- The *brutality of the move* – USD/JPY falling from near-164 to sub-160 in a sharp jolt– is *as poignant as the timing* – **just ahead of today's BoJ meeting**.
- And the latter (timing) **is no coincidence**. Clearly the Authorities are *pre-emptively warning/insuring against JPY sell-off on an expected BoJ hold.*
- But to be clear, this is **not merely a tactical dampening of JPY risks from specific BoJ action**.
- Instead, and **crucially**, it is meant to be a **strategic de-coupling of JPY from BoJ decisions**.
- *More specifically,* to **snap adverse "Sell Japan" dynamics** entailing *simultaneous JPY and JGB sell-off* .
- Especially given that the **BoJ is boxed-in and compromised by amid asymmetric JPY risks** – *as hikes fail to lift JPY, but failure to hike accentuates JPY pressures.*
- And ***given the adverse feedback loop between a weak JPY and imported inflation,*** the danger is that **economic costs** (*of requisite rate hikes*) **to shore up JPY is now prohibitive for the BoJ**.
- Whereas **MoF intervention ought to free** the **BoJ from the compounded policy complication of addressing chronic JPY pressures beyond its control***.
- *But* this *JPY-BoJ decoupling* is an *aspiration being pursued, not an objective accomplished.*
- Whereas JPY sellers could creep back in, and long-end JGB yields are liable to be pressured higher, especially given collateral pressures from post-FOMC long-end UST sell-off.

* The rolling Iran-Hormuz crisis, the USD's "war premium" and US tariff-related JPY pressures cannot, and arguably should not, be addressed via BoJ rate policy.

Figure 1. Bloomberg Candle Chart of USD/JPY