Mizuho Brief: JPY

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Coordinated US-Japan JPY Intervention: Pain Relief, Not Panacea

In a Nutshell:

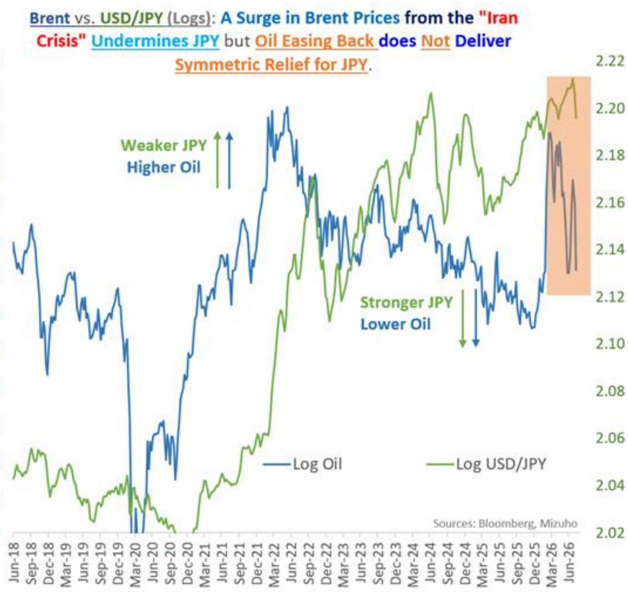
- **Coordinated US-Japan action** backed by **warnings of more to come** (if necessary) and **suggestion of undervalued JPY accentuate the efficacy of intervention** threats. Which in turn **ought to backstop the JPY more effectively**.
- ***Especially as commitment to further coordinated interventions*** is **backed by collective US-Japan interests to keep long-end yields contained**.
- Specifically, given that **containing JPY depreciation is likely to mitigate long-end JGB (yield surge) risks transmissions** *amid "Sell Japan" dynamics* – that simultaneously pressure JPY lower and JGB yields higher.
- Furthermore, *implied ECB buy-in for JPY intervention lends itself to outsized impact from intervention and* **amplifies deterrence against speculative bearish JPY bets.**
- **But** all said, *even with oversold JPY vis-à-vis UST-JGB rate differentials,* **US-Japan coordinated intervention is a solid backstop** (around 152-162) that **entrenches deterrence**, but ***still short of a sustained bullish JPY inflection***.
- Especially as **wider geopolitical risks** persist, and are likely to be **accentuated via energy**, **shipping**, **supply-chain, trade** and **fiscal** channel transmissions may continue to undermine JPY.

- Last week's **JPY intervention**, *which has plunged USD/JPY from ~164 to sub-157*, marked the **first coordinated Japan-US action since 2011/1998***.
- And it is **not just the historic nature** of coordinated US-Japan FX intervention **that gives markets** (and in particular, JPY bears) **pause**.
- *Rather,* it is the **disproportionately heightened efficacy of coordinated FX intervention with the involvement of** the *US Treasury and Federal Reserve* (in this case the NY Fed).
- Further **accentuated by** the **joint statement from Japan and the US reinforcing scope for further intervention**, if necessary.
  - Notably, with **Treasury Secretary Bessent** asserting that the US, "*in close communication with … MoF and BoJ*", "*will not hesitate to participate in further joint intervention*".
  - Alongside Japanese **FinMin Katayama** flagging the MoF, in "*close contact with US*" is *"watching FX developments closely"* and *"can take bold action on abrupt FX moves".*
- Arguably, this has profoundly **upped the ante on deterrence** – **for speculative JPY bears** and (JPY-funded) **"carry trades"** alike.
- For a start, the **collective**, **unambiguous resolve for further coordinated intervention**, **fire warning shots at JPY bears pushing the envelope**.
- Crucially, **Bessent assessing JPY as being "undervalued" goes appreciably** (no pun intended) **further, turning the tables on JPY bears** by **flagging desire for JPY appreciation**.
- Especially with *FinMin Katayama acknowledging* (and perhaps tacitly concurring with) Bessent's views that *JPY should be valued higher.*

- In concert, ***deterrence* against bets on JPY depreciation *assumes a souped-up, "offense is the best defense" posture*** – *flaunting active preference for further JPY strength, not merely averting sharp sell-off.*
- Furthermore, perceptions of **collective/aligned desire/incentive for a stronger JPY** lends **credibility to intervention risks**.
  i. For a start, *by leaning into MoF intervention,* Bessent will help *alleviate intervention-related selling of USTs* (by Japan), and the attendant rise in long-end UST yields.
  ii. Second, *JPY intervention could also help soften, if not snap, adverse "Sell Japan" dynamics* – simultaneously lifting JGB yields and pressuring JPY – *concurrently helping to further dampen collateral upside in long-end UST yields.*
  iii. In addition, *selling EUR to buy JPY conveys (implied) ECB by-in* for JPY intervention. , further **underpinning the efficacy of intervention**.
  iv. Also, the *benefit of EUR-denominated intervention is that shoring up JGBs* (holding down JGB yields) may be achieved **without compromising UST yield anchor**.
- The **case for credible and effective JPY intervention is further enhanced** given *that* vis **prevailing UST-JGB rate differentials square with** the idea of **oversold JPY levels** – so long as "Sell Japan" dynamics are subdued.
- All said, this round of intervention has the hallmarks of a more effective JPY backstop, suggesting 152-162 USD/JPY support for now.
- But that said, **significantly fortified deterrence** is ***still short of a sustained bullish JPY inflection*** as **persistent underlying JPY pressures are merely mitigated, not fundamentally eliminated**.
- Most prominently,
  i. *Rate differentials remain disadvantageous* (real and nominal) even if JPY sell-off is overdone.
  ii. *Oil* (and *wider shipping*) *shocks* amid geoeconomic risks mean that potential for JPY pressures remain well and alive, reverberating via energy, trade, supply-chains and fiscal channels.
  iii. *Ongoing (and unresolved) fiscal worries, exacerbated by geo-political risks, that underpin "Sell-Japan" dynamics simultaneously pressuring JPY and JGBs (yield higher), and;*
  iv. Exceptionally large *commitments to invest in US* warn that JPY may underperform usual rate and external account support.

*The was coordinated action after the Great Tohoku earthquake in 2011 to stall sharp JPY appreciation **whereas 1998 was the last episode of coordinated US-Japan intervention to curb JPY depreciation** – as is this time.


UST-JGB Yields Spreads (bp) vs. USD/JPY: Political-Fiscal Risks Hammered UST-JGB Spreads (surge in JGB yields) but Sank JPY. This "Sell Japan" Dynamics was Exacerbated by Iran War. with US-Japan Intervention Looking to Diminish this "Japan Premium".
Weaker JPY
Stronger JPY
Composite of 30Y & 10Y Spreads
USD/JPY
Sources: Bloomberg, Mizuho


Brent vs. USD/JPY (Logs): A Surge in Brent Prices from the "Iran Crisis" Undermines JPY but Oil Easing Back does Not Deliver Symmetric Relief for JPY.
Weaker JPY
Higher Oil
Stronger JPY
Lower Oil
Log Oil
Log USD/JPY
Sources: Bloomberg, Mizuho