

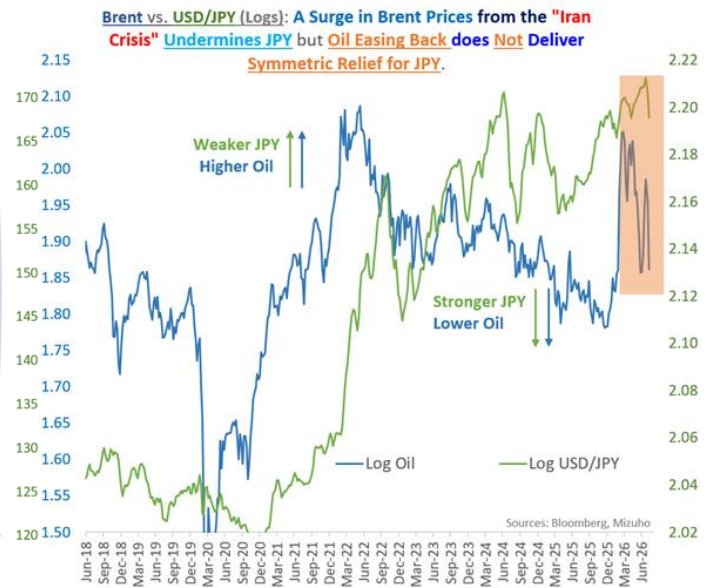
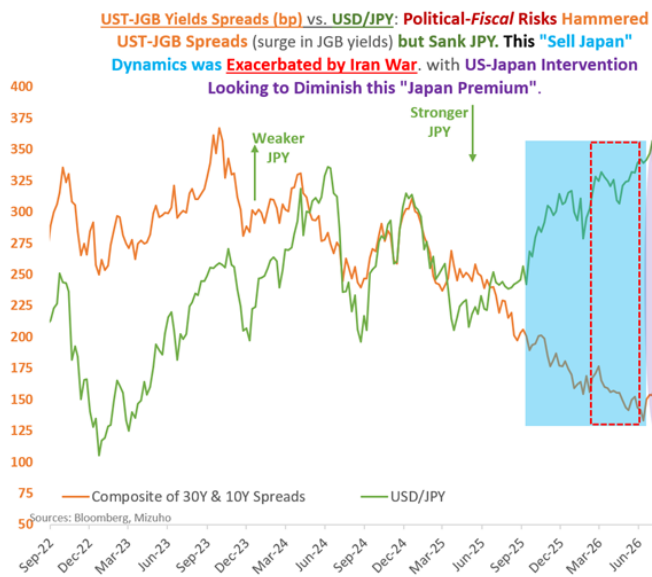
Coordinated US-Japan JPY Intervention: Pain Relief, Not Panacea

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.
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- 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 buy-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.



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