

FX Viewpoint

Currencies
Global

USD-JPY: A new and higher range

- ◆ USD-JPY is near the highest level in four decades
- ◆ We think Japan's Ministry of Finance will likely intervene at some point to support the JPY
- ◆ But USD-JPY may have moved into a new and higher range reflecting both external and domestic reasons

Continued JPY weakness

USD-JPY is near its highest level in c40 years. Finance Minister Katayama promptly said the authorities would **“respond... appropriately at any time”** and that **“bold actions”** are an **“option”** (Bloomberg). However, her language appeared less forceful than on 30 April when she stated that **“we are nearing [the] time to take bold action”** (Bloomberg) – comments that were followed by a sharp decline in USD-JPY later that evening.

Japan's authorities may take action to support the JPY

Underlying assumptions

We changed our broad USD view after the 17 June FOMC meeting and now expect the US Dollar Index (DXY) to trade in a new and higher range. In line with this, we also anticipate **further USD strength versus JPY through mid-2027**.

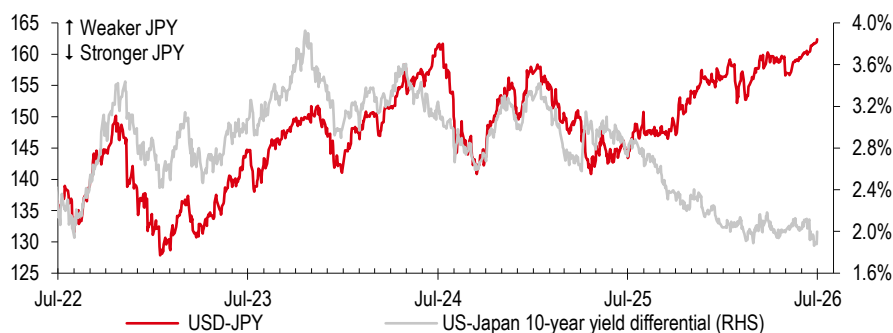
We expect USD-JPY to move higher through mid-2027

Our view assumes the Bank of Japan (BoJ) will avoid rapid, hawkish rate hikes, keeping **nominal and real US-Japan rate differentials wide** (see chart). We also expect fiscal concerns to persist as authorities use fiscal policy to curb cost of living pressures, boost investment and strengthen defence. In addition, we assume no change in resident capital flow policies, allowing retail equity outflows to continue.

Our view assumes US-Japan rate differentials stay wide

Finally, we think the Ministry of Finance (MoF) will **continue resisting unfettered JPY depreciation**. A weaker JPY remains unpopular with the Japanese public and raises the risk of renewed **“triple sell”** episodes across JPY, equities and bonds. That said, the MoF's tolerance for further weakness appears to have shifted slightly higher.

USD-JPY and its yield differential



Source: Bloomberg, HSBC

Higher intervention threshold

We see several plausible reasons for this **slightly higher bar for intervention**. The short-term “fair” value of USD-JPY, based on its correlations with underlying variables including the broad USD trend, has likely shifted higher alongside the recent rise in the DXY.

Lower oil prices also reduce the urgency to curb imported inflation compared to March-May. In addition, the MoF also typically aims to surprise the market, and past episodes suggest subsequent intervention waves can occur at incrementally higher levels (e.g. 1998, 2022 and 2024).

The MoF may have a higher bar for intervention than previously

Disclosure appendix

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