

# FX Viewpoint Flash

## JPY: Intervention speculation

- ◆ USD-JPY fell sharply amid possible US-Japan joint FX intervention
- ◆ History shows coordinated FX intervention can be impactful, though not a guaranteed solution
- ◆ Japan faces fiscal consolidation challenges, with FX intervention and policy changes under consideration

USD-JPY experienced a sharp decline late Friday during the US trading session, following reports that **the New York Federal Reserve (Fed), on behalf of the US Treasury, conducted rate checks** (*The New York Times*, 23 January). This move came after an earlier surge in USD-JPY during the Bank of Japan (BoJ) Governor Ueda's press conference, and subsequent remarks from Finance Minister Katayama highlighting **the Japanese government's heightened vigilance over FX market developments** (*Bloomberg*, 23 January). Given how the Japanese and US authorities have already emphasised their shared concerns about the JPY a couple of weeks ago (*Bloomberg*, 13 January; US Treasury's readout on 14 January), this recent rate check suggests joint intervention is possible over the near term.

USD-JPY fell sharply amid possible US-Japan joint FX intervention

### USD-JPY fell on intervention speculation



Source: Bloomberg, HSBC

Historical precedent suggests that **coordinated FX intervention between Japan and the US**, such as the impactful action on 17 June 1998, **tends to be more effective than unilateral measures**. On that occasion, both parties sold modest amounts of USD (USD0.8bn by the US and USD1.7bn by Japan), resulting in a 6% move in USD-JPY, with no further intervention for an extended period. However, frequent joint interventions over May 1989-April 1990 (where the US sold USD12bn and Japan sold USD22bn in total over numerous occasions) did not provide a lasting solution, indicating that **US involvement is not necessarily a game-changer or a panacea for the JPY's weakness**.

Past coordinated interventions between Japan and the US proved more effective than unilateral actions

Currently, **a risk premium is evident for the JPY**, as reflected by the divergence between USD-JPY and yield differentials. Market concerns regarding Japan's fiscal sustainability have intensified amid inflation and political shifts. With **general elections on 8 February** and ongoing discussions around consumption tax relief, **concrete strategies to address fiscal gaps remain under debate**. While fiscal dominance is not inevitable, restoring credibility will require time and further action from Japanese authorities. Meanwhile, **FX intervention and measures to encourage domestic investment over foreign assets may provide support for the JPY**.

Market concerns over Japan's fiscal outlook persist, prompting discussions on FX intervention and domestic investment incentives

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