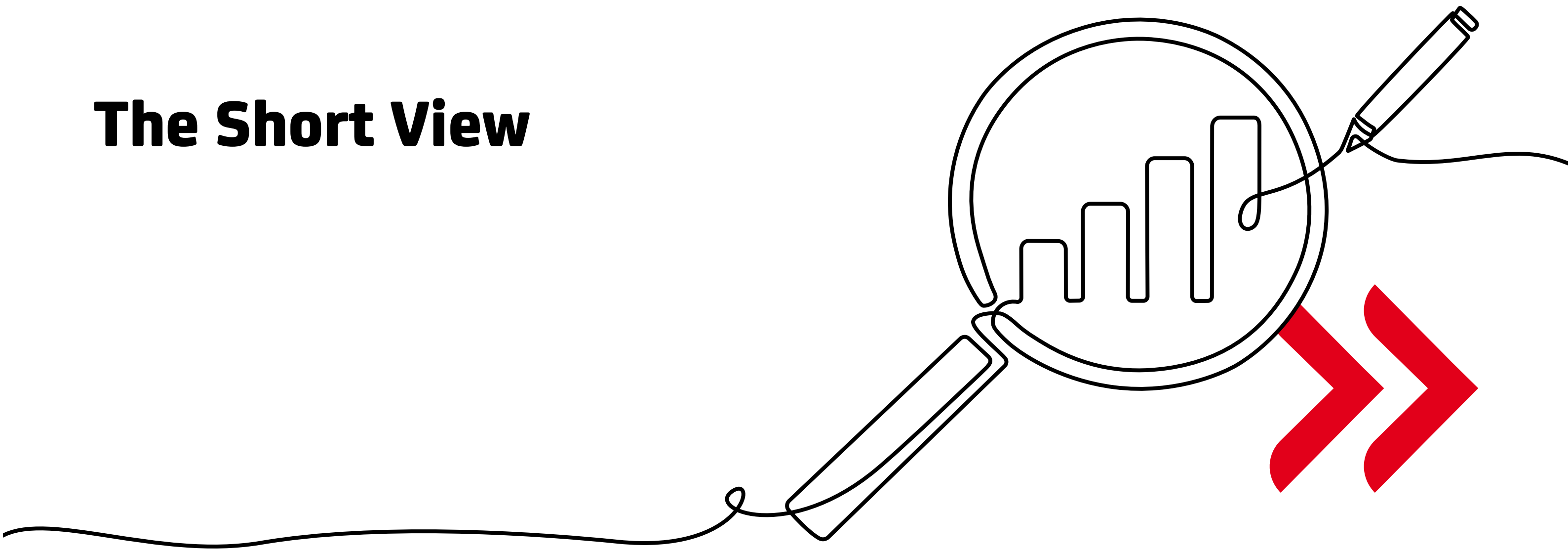
The Short View



The Short View offers insights on key macro and market stories
and is designed to promote discussion and debate.

Is FX intervention a “losing game”? The JPY’s case

26 August 2026

The joint intervention by the BoJ and the US Treasury on USD-JPY in late July was the strongest response Japan could send to markets to prevent a further plunge of the JPY. Yet one month later, USD-JPY is back above 159. If Japanese authorities are just targeting a passive approach to limit more JPY weakness instead of trying to drive it higher, the net result may prove quite discomforting compared to the abrupt JPY trend reversal that occurred in summer 2024.

1. **The event:** The bold joint intervention by the BoJ and the US Treasury at the end of July was the strongest response Japanese policymakers could send to investors to halt the free-fall of their currency, as USD-JPY was steadily heading towards multi-year highs of 165.
2. **The puzzle:** USD-JPY plunged by ten “big figures” to a low of 155.24 on 3 August due to the induced short squeeze in the market. Since then, however, USD-JPY has rebounded and is now back above 159, despite the greenback having weakened; the BoJ may bring forward another rate hike in September, especially after the renewed rise in inflation in July.
3. **Our view:** This joint intervention has been less successful than when the BoJ acted alone in summer 2024, and USD-JPY fell by 15%, from 162 to below 140. Hence, if Japanese authorities assume a passive role aimed only at preventing further JPY weakness instead of adopting a more aggressive approach to drive yen higher, FX intervention will prove to be "a losing game". In that sense, the massive fiscal plan launched last month by the Takaichi government may represent the key driver for the JPY.

BoJ and Fed: first joint FX intervention since 2011 to support the JPY

The joint FX intervention the BoJ and the US Treasury, through the New York Fed, conducted on 30 and 31 July, with a probable continuation at the start of August, was the strongest response Japanese authorities could send to investors to prevent a further free-fall of their currency. USD-JPY was steadily heading towards multi-year highs of 165 after the supposed "line in the sand" of 160 was easily and rapidly breached. USD-JPY reached a high of 163.98 on 23 July.

Joint intervention was quite massive: the precise size is still unknown, however, as data available from Japan's ministry of finance, which provides statistics on FX open-market intervention, were released on 29 July, i.e., the day before the Japanese and US central banks acted.

Importantly, the US administration confirmed the joint intervention. US President Donald Trump said it was "a signal of friendship" between the two countries. Yet given the midterm elections on 3 November, his support may be an indirect effort to limit the USD's strength and favor a lower currency to help US exports, given the ongoing impasse and limitations for duties on imports. At the same time, the US decision was probably motivated by the fear that the BoJ could have sold US bonds, pushing Treasuries' yields higher (Japan has become the largest owner of US Treasuries – over USD 1.1tn as of June 2026).

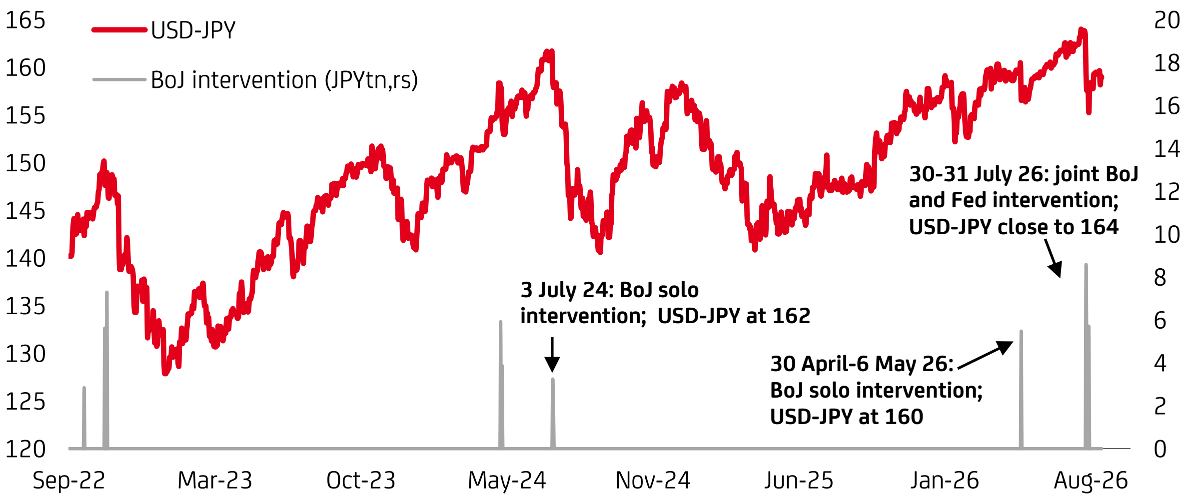
Current estimates of joint intervention range from a minimum of USD 53bn being sold against the JPY to a maximum of USD 85bn, with the US contribution not exceeding USD 10bn, as suggested by press reports of a "to-do list" written by US Secretary Scott Bessent, where such amount was indicated.

Japanese sources indicated an intervention on a larger scale, suggesting that the US Treasury, which is formally responsible for US currency policy, might have asked the New Yok Fed, which materially conduct FX intervention on indications of the US Treasury, to sell not just the USD but also the EUR to support the JPY. This might explain the 4% drop in EUR-JPY, which is not marginal, as this exchange rate tends to show relative stability, reflecting, as a cross-rate, the general opposite dynamics of EUR-USD and USD-JPY.

Notably, the 30 July operation alone, calculated via the BOJ's current-account data, was roughly JPY 8.45tn (USD 52.8bn), making it the largest single-day intervention on record. Additional suspected JPY support operations added another USD 34bn in sales in early August when USD-JPY reached a monthly low of 155.24.

For comparison, previous significant actions included a nearly JPY 5.5tn (USD 35bn) operation between the end of April and early May 2026, when USD-JPY breached 160, and the sharp intervention in July 2024, when the BoJ sold roughly USD 36.8bn against the JPY, as the pair had approached 162 (see Chart 1).

CHART 1: THE LATEST FX INTERVENTION ON USD-JPY



Source: LSEG, The Investment Institute by UniCredit

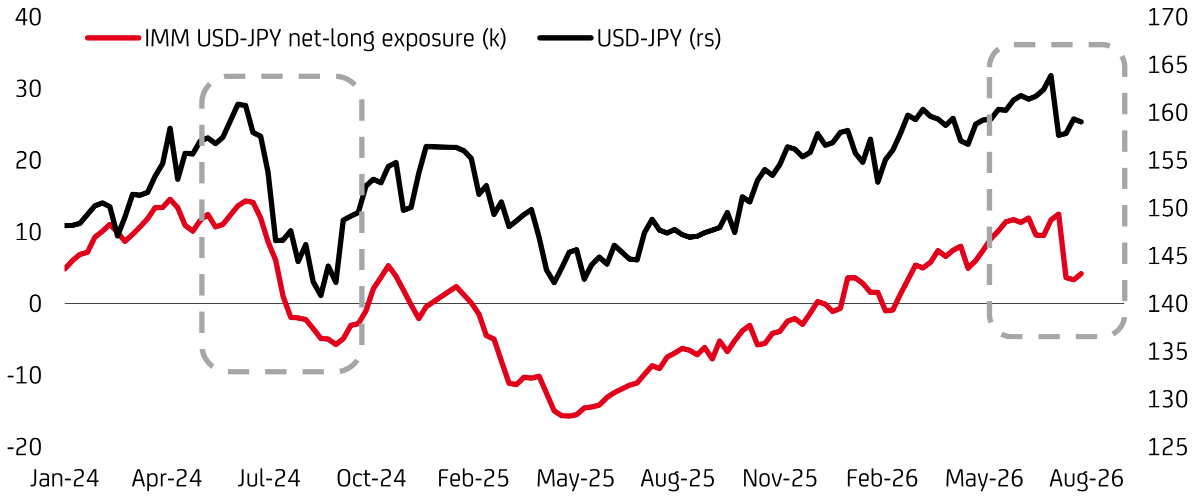
As noted above, the joint intervention was the strongest response Japanese authorities could send to investors, for two simple and evident reasons:

1. Joint central-bank intervention is a rare event. For example, the last joint Japan and US operation took place on 18 March 2011, alongside other G7 central banks, such as the ECB, the Bank of England, and the Bank of Canada. However, back then the goal was to curb a massive, disruptive surge – rather than a fall, as is the case this time – in the JPY following the devastating Tohoku earthquake and tsunami. Extreme market panic caused investors to hoard the yen, driving its value up aggressively and threatening Japan's disaster recovery.
2. Japanese authorities made clear that if investors tried to retest new "pain thresholds" for the JPY and Japan, they would face two major central banks at once (obviously assuming that the US participation was not a one-off event, as confirmed by US Treasury Secretary Scott Bessent).

Unsurprisingly, the knee-jerk market reaction was significant: investors were immediately short squeezed by joint intervention, especially because such a possibility had already been circulated in January, but the US administration had denied these rumors.

As shown in Chart 2, investors were already quite net-long on USD-JPY at the end of July, according to the weekly data published by the Commodity Futures Trading Commission (CFTC), which looks at the non-commercial commitments of traders on the International Money Market (IMM). The data are a good proxy of "speculative" positions in the FX market on currency majors against the greenback.

CHART 2: JOINT BOJ AND FED INTERVENTION SQUEEZED AN FX MARKET ALREADY NET-LONG USD-JPY



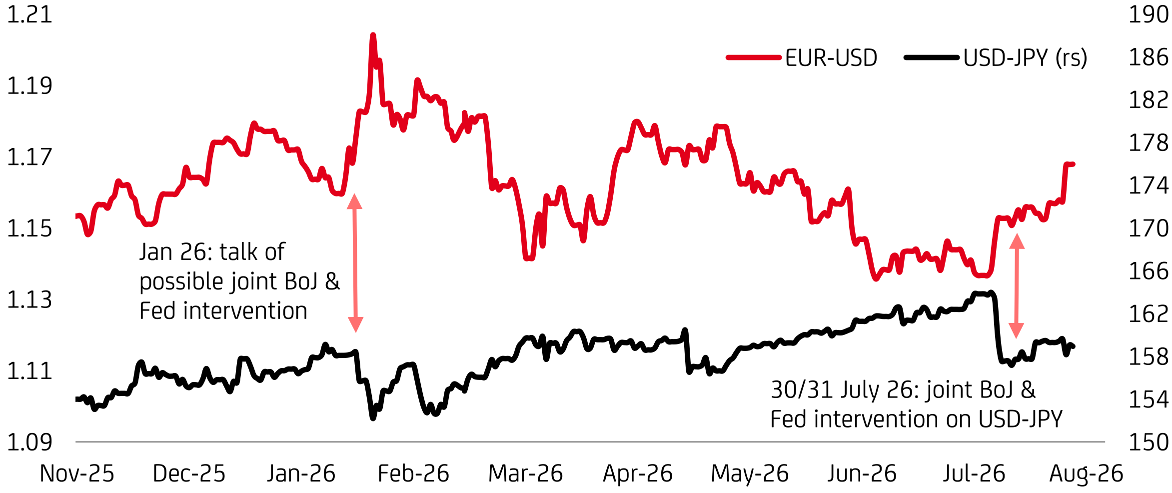
Source: LSEG, The Investment Institute by UniCredit

As a result of the joint intervention, USD-JPY lost almost ten big figures, dropping to a low of 155.24 on 3 August from its high of 163.98.

The fall of USD-JPY induced the usual "spillover effect" by strengthening the other FX majors against the greenback.

Particularly, EUR-USD immediately rallied from below 1.14 to above 1.15, as shown in Chart 3, although the following rebound of the common currency to over 1.17 has been driven by the series of weak economic data released this month in the US, such as the employment report, CPI and PPI inflation and retail sales. These data releases have forced investors to scale back the room for Fed tightening even further in the coming months.

CHART 3: THE FALLING USD-JPY DUE TO JOINT INTERVENTION INDIRECTLY LIFTED EUR-USD



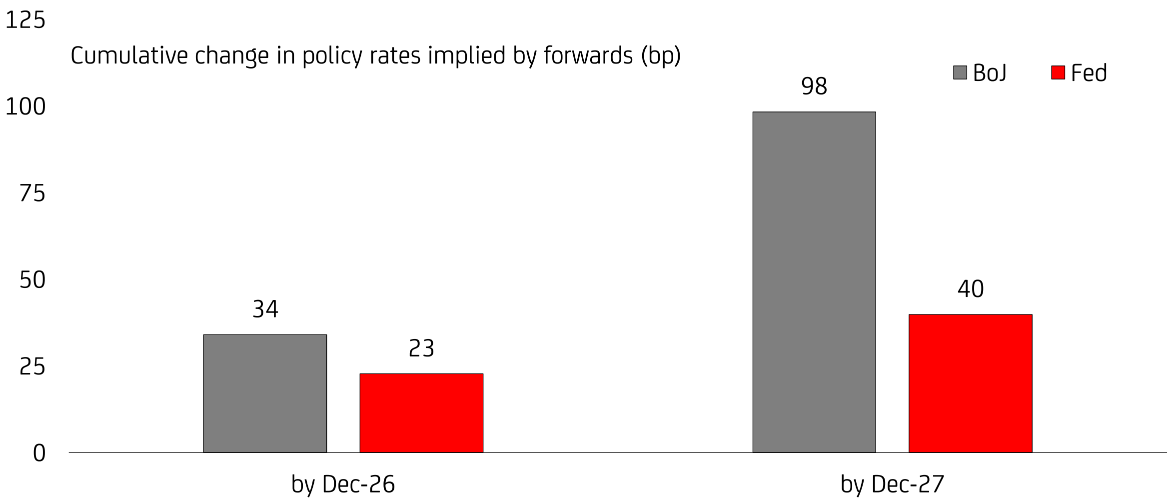
Source: LSEG, The Investment Institute by UniCredit

This year's joint intervention looks less promising than in 2024

However, as highlighted in Chart 2, the joint BoJ and Fed intervention has proven less successful thus far than the operation the Japanese central bank conducted alone in July 2024. Two years ago, USD-JPY fell by over 20 big figures, from 161.68 to 139.56, marking a 15% plunge. This time, despite the Fed's involvement, USD-JPY fell by less than 10 big figures, with only a 5% drop. Moreover, instead of extending its dive, the pair has rebounded back above 159.

Even more critically, the USD-JPY recovery occurred while expectations that the BoJ may bring forward another 25bp rate hike at its next meeting on 18 September have increased following recent warnings by BoJ members and the latest CPI inflation data in Japan. Price pressure in Japan accelerated in July to 1.9% yoy for both the headline and the core rates, moving close to the central bank's 2.0% target. The ex-food-only index, the BoJ's favored price metric, climbed to 1.8% yoy as well. At the same time, markets have significantly scaled back the intensity of Fed tightening expected by the end of this year and by December 2027, which would make carry trades on USD-JPY less appealing. This is depicted in Chart 4, which shows the cumulative changes in the BoJ and Fed policy rates implied by forward rates from now until the end of this year and next year.

CHART 4: BOJ TOUGHER THAN THE FED ON RATE HIKES, ACCORDING TO FORWARD RATES



Source: LSEG, The Investment Institute by UniCredit

In both cases, markets are reflecting the likelihood that the BoJ may be more aggressive than the Fed on its total tightening but while the difference is relatively modest for this year (roughly 10bp), it becomes very large for next year, when investors expect the BoJ to deliver a cumulative 100bp in rate hikes vs. less than half a point by the Fed

Conclusion: Japanese policymakers cannot remain passive on the JPY

The limited success of this summer's joint intervention compared to 2024 may hide a credibility problem for Japanese policymakers and the BoJ in particular.

A rate hike in Japan next month remains a close call, as reflected by the fact that, despite the recent rise in CPI inflation, forward rates are assigning only 15bp of further tightening out of 25bp at this meeting, i.e., a likelihood of only 60%. This is because, regardless of recent BoJ warnings against inflation, investors are quite convinced that the decision will also depend on the "green light" being given by Sanae Takaichi's government.

In July, the Japanese Diet approved the government's annual economic policy blueprint. The plan targets massive fiscal expansion of JPY 370tn (approximately USD 2.28tn) through the 2040 fiscal year, with an increase in public spending whose financing will inevitably require new debt with extra-long maturities. The final version of the plan clarifies the BoJ's independence and its focus on price stability, but there are concerns that the central bank may be forced to dilute the pace of its additional monetary-policy normalization in order not to derail the expected boost domestic demand should receive from the massive fiscal stimulus.

This is also the crucial point of evaluating the impact of the joint intervention in July: the size of the operation was huge, so no one can blame the BoJ for not reacting strongly. However, if Japanese authorities take only a passive role aimed at preventing additional JPY weakness and keeping the currency off its recent highs above 160, not only love, as Amy Winehouse sang in one of her famous hits, but also FX intervention will prove to be "a losing game". By contrast, the Japanese monetary policy makers should adopt a more aggressive approach if they want to drive the JPY higher, possibly surprising markets with more hikes than currently priced in.

But the true question to ask is whether this is an achievable goal at present, considering that the massive fiscal plan launched last month risks determining the future direction for the JPY.

Admittedly, the effective stance of Japanese authorities on the FX front is far from clear and the signals they sent to markets have been quite mixed, if not contradictory, until now: would they simply want to catch investors off guard and squeeze them even further through new interventions, or can they even tolerate a relatively weak currency? Put It differently, would a too-rapid appreciation of the currency represent an obstacle to the government's goal of boosting Japanese economic growth, primarily though the fiscal channel? Or, on the contrary, would a weaker JPY be another threat to Japanese inflation, beyond high energy prices, or is it a further weapon to support economic expansion (through exports) in addition to the very expansionary fiscal policy?

Given this uncertainty, we stick with our current USD-JPY forecasts, targeting the pair at 157 by end-2026 and at 152 by end-2027. A break below 150 continues to look challenging, even in a scenario where the greenback may weaken further against the other majors.

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