Coffee Break

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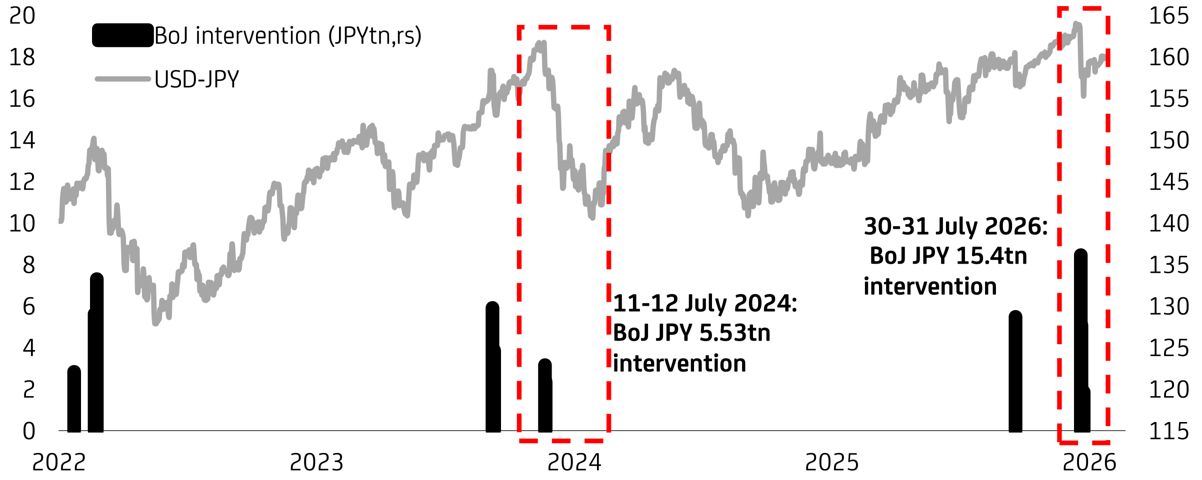
Japan's FX policy: between a rock and a hard place

3 September 2026

USD-JPY continues to struggle not much below 160, although FX intervention in July was much stronger than in July 2024. The pair is now 4% off its YTD highs close to 164, despite the US Treasury's involvement. Investors fear more action on USD-JPY, as it was quite evident yesterday, with traders on alert for intervention, but the lower success of the joint operation this time reflects uncertainty regarding Japan's FX policy and the role the JPY is set to play in it.

THIS TIME, BOJ INTERVENTION ALONE ON USD-JPY WAS MORE THAN THREE TIMES LARGER THAN IN 2024

USD-JPY AND BOJ INTERVENTION



Source: LSEG, The Investment Institute by UniCredit

THE CONTEXT

USD-JPY has extended its yesterday's retreat to the edge of 157 overnight. However, it remains not much below 160 after reaching a low of 155.21 on 3 August following joint intervention by the BoJ and the US Treasury at the end of July.

Importantly, the partial rebound of the pair from post-intervention lows started even before Fed Chair Kevin Warsh re-ignited interest-rate-hike expectations in his keynote speech in Jackson Hole, and despite an increasing likelihood that the BoJ may bring forward another 25bp rate hike to 1.25% at its upcoming meeting on 18 September after Japanese CPI inflation for July rose very close to the central bank's 2% target.

THE DATA

As shown in the chart above, data published by the Japanese Ministry of Finance reveal that the BoJ executed its strongest FX market intervention on record between the end of July and August with nearly JPY 15.4tn (USD 96.5bn) bought against the USD. At least USD 10-15bn sold directly by the US Treasury would need to be added to the amount sold by the BoJ. The US Treasury probably decided to join the operation to prevent Japan from selling US Treasuries, increasing US long-term yields ahead of the US buyback, which would start on 9 September with the goal of lowering borrowing costs in the US. Japan is currently the largest foreign holder of US government debt with USD 1.11tn as of June 2026. When considering the BoJ's unilateral action two years ago, intervention this time was almost three times the JPY 5.53tn (USD 36.8bn) bought by the Japanese central bank in July 2024.

OUR VIEW

The joint BoJ and Fed intervention has proved less successful thus far than the operation the Japanese central bank conducted alone two years ago. In July 2024, USD-JPY fell by over 20 big figures, from 161.68 to 139.56, marking a 15% drop. 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 bounced back, erasing 20% of its initial fall.

The size of the July operation was massive; thus, no one can blame the BoJ for not reacting strongly. Moreover, investors do fear the risk of more central bank action, as it was quite evident yesterday and this morning, with USD-JPY breaking even below 158, in a sort of self-fulfilling prophecy. Traders are still on high alert regarding potential new intervention, although there is no evidence that this has happened. There is also no evidence that forward rates have also significantly increased the intensity of tightening the BoJ is set to deliver by the end of the year and in 2027. Nevertheless, if Japanese authorities only aim at preventing more JPY weakness and keeping it off its recent highs close to 164, intervention will ultimately prove far from being decisive in definitively reversing the weakness of the Japanese currency, as discussed in our recent *Short View* – *Is FX intervention a "losing game"? The JPY's case*, 26 August.

By contrast, Japanese policymakers should adopt a tougher approach if they want to seriously drive the JPY much higher, but the key question here is whether this is the current goal of Japan's FX policy. At present, Japanese FX policy is caught between a rock and a hard place, i.e., the impact of the huge fiscal plan (worth JPY 370tn) the Japanese government presented last month to boost domestic demand and the effective room for the BoJ to implement a sustained tightening to stem increasing inflation pressure.

Admittedly, the real stance of Japanese authorities on the FX front is far from clear and the signals they send to markets have been mixed, if not contradictory, so far: do they want to catch investors off guard and squeeze them again through new interventions, or do they favour a weak currency? Put differently, would a too-rapid appreciation of the JPY be helpful to contain inflation and dilute BoJ tightening or would it represent an obstacle to the government's goal of boosting economic growth, primarily through the fiscal channel? On the other hand, 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 huge fiscal boost? Given this uncertainty, we stick with our current USD-JPY forecasts, still targeting the pair at 157 by 4Q26 and at 152 by 4Q27. A break below 150 continues to look challenging, even in a scenario where the USD may not strongly benefit from Fed tightening, as policy rates are also expected to rise outside the US.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
16:00	US	ISM non-manufacturing (index)	Aug	-	54.1	54.1

Source: Bloomberg, The Investment Institute by UniCredit

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