Citi Wealth

Asia Pacific *Regional Publication*

Jaideep Tiwari
Head, Global Foreign Exchange Investment Strategy

18 July, 2025

FX Focus: 25% tariff on Japan a short-term setback for Yen bulls

FIGURE 1: FX Forecasts

Forecast (June 2025)	Spot	0-3m	6-12m	Long-term
USDJPY	148.25	145.00	138.00	130.00

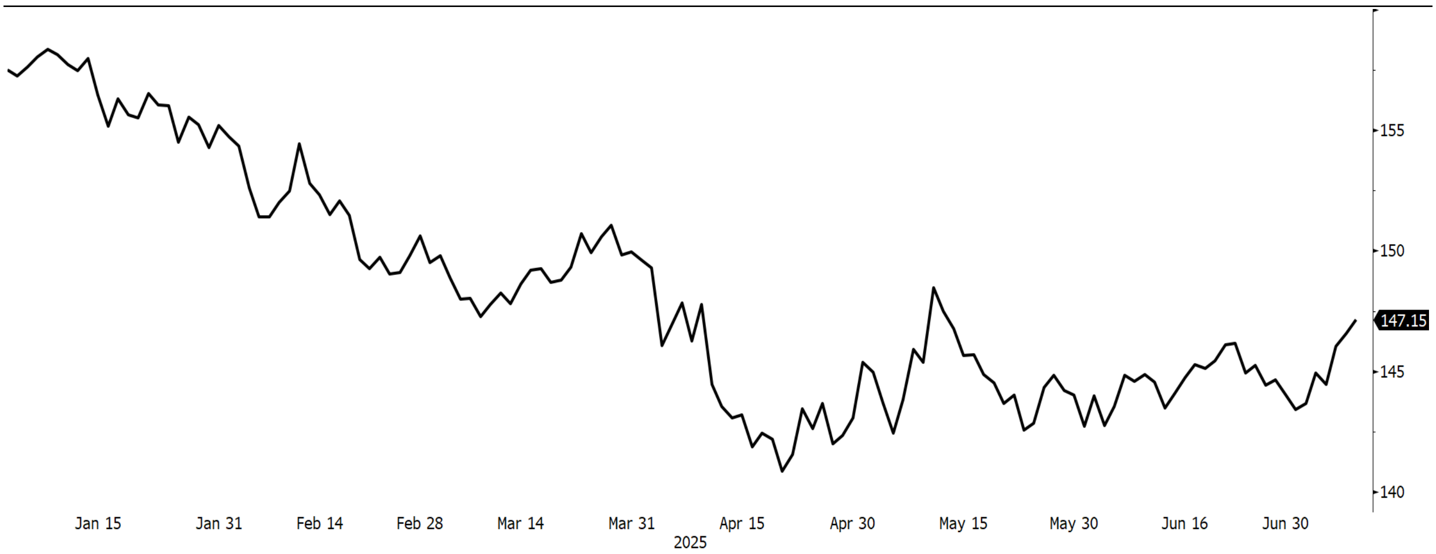
Source: Citi Wealth Investments as of July 2025.

- President Trump's pronouncement of a 25% tariff on Japanese exports effective August 1 comes amid electoral positioning for Japan's Upper House election on July 20.
- If implemented, the 25% tariff raises the short-term economic and political costs for Japan and likely represents a temporary setback for Yen bulls.

- The Trump administration's pronouncements on "reciprocal tariffs" following the end of the tariff pause on July 9 sees Japan hit with 25% tariffs on its exports to the United States from August. This does not include sector specific tariffs (25% tariff on autos) which could still be re-negotiated but the announcement places the Japanese government in a bind. It could either:
    - Compromise by giving US greater access to its automobile and agricultural markets. This adds risk and may see the government losing the Upper House as the move is seen to damage the national interest.
    - Hold firm versus the US and accept the 25% tariff but this risks Japan falling into a recession with Street analysts expecting a 0.8% reduction to GDP from it.
- Fiscal appeasement to the domestic electorate to compensate for trade compromises is not likely to be an option as we believe the Japan government bond market is concerned about the amount of debt issued.
- With a very small window to successfully re-negotiate the tariff agreement following the Upper House election on July 20 to the implementation of the 25% tariff on August 1, President Trump's announcement carries significant near-term economic and political costs for Japan PM Shigeru Ishiba.
- The economic and political fallout could see the Bank of Japan jettison its tightening bias for the rest of 2025. This may impact Japanese rate markets, where they may have to unwind the near 25 basis point hike currently discounted before year-end. Lower rates would in turn, likely weaken the Yen somewhat.
- But the 25% tariff is unlikely to alter the medium to longer term path of further Yen gains. Buffers from earlier strong profits and domestic labor shortages would mitigate the spillover from lower exporter earnings to aggregate wage growth next year and allow BoJ to re-start its hiking cycle next year.

- The overall path for further Yen strength (albeit delayed) remains unchanged because:
    - Expectations for a continuation of USD vs JPY yield spread compression. This is because of the likely Fed cuts and because the BoJ could eventually tighten further, which means a compression in the policy rate differential to sub 325bp is likely lead to the next leg lower in USDJPY.
    - Japan exporter earnings are now more vulnerable to exchange rate risk at levels sub 145.72 which represents the BoJ's June Tankan survey's forex break even rate for all Japanese exporters. This implies greater hedging activity via selling USDJPY in spot and forward markets.
    - Talk of an informal US–Japan agreement to strengthen the Yen as part of a Washington-Tokyo deal looks even more likely now as perhaps the easiest Japanese concession.

FIGURE 2: USDJPY spot has been in lower 141 – 148 range since the start of 2025 compared to 2024's 148 – 162 range



Source: Bloomberg, July 9, 2025. **Past performance is no guarantee of future results.** Real results may vary.

If you need additional support with the accessibility of this material, please contact your Citi team or email us at accessibility.support@citi.com for assistance.

DISCLOSURES

This communication is marketing material.

This email contains promotional materials. If you wish to change which promotional emails you receive from Citi Private Bank, Citi Global Wealth at Work, and Citi Wealth Investments, you can update your email preferences or unsubscribe. For Citi Personal Wealth Management customers you can opt out here. Email is not a secure environment; therefore, do not use email to communicate any information that is confidential such as your account number or social security number. In the U.S., the address of the sender of this message is 388 Greenwich Street, New York, NY 10013.

This Communication is prepared by Citi Wealth Investments ("CWI") which is comprised of the investments and capital markets capabilities that are provided to Citi Private Bank, Citi Global Wealth at Work, Citi Personal Wealth Management and Citi Personal Investments International (CPII).

Citi Private Bank, Citi Global Wealth at Work, Citi Personal Wealth Management, and Citi Personal Investments International are businesses of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations. In the U.S., investment products and services are provided by Citigroup Global Markets Inc. ("CGMI"), member FINRA and SIPC, Citi Private Alternatives, LLC ("CPA"), member FINRA and SIPC, and Citi Global Alternatives, LLC ("CGA"). CPA acts as distributor of certain alternative investment products to certain eligible clients' segments. CGMI accounts are carried by Pershing LLC, member FINRA, NYSE, SIPC. Investment management services (including portfolio management) are available through CGMI, CGA, Citibank, N.A. and other affiliated advisory businesses. Insurance is offered by Citi Personal Wealth Management through Citigroup Life Agency LLC ("CLA"). In California, CLA does business as Citigroup Life Insurance Agency, LLC (license number 0G56746). CGMI, CPA, CGA and Citibank, N.A. are affiliated companies under the common control of Citigroup.

Outside the U.S., investment products and services are provided by other Citigroup affiliates. Investment Management services (including portfolio management) are available through CGMI, CGA, Citibank, N.A., and other affiliated advisory businesses. These Citigroup affiliates, including CGA, will be compensated for the respective investment management, advisory, administrative, distribution and placement services they may provide.

Read additional Important Information.

Opinions expressed herein may differ from the opinions expressed by other businesses or affiliates of Citigroup, Inc., and are not intended to be a forecast of future events, a guarantee of future results for investment advice, and are subject to change based on market and other conditions.

INVESTMENT PRODUCTS: NOT FDIC INSURED · NOT CDIC INSURED ·
NOT GOVERNMENT INSURED · NO BANK GUARANTEE · MAY LOSE VALUE