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FX Focus: Japanese Yen at Record Lows with No Bottom in Sight

The Yen's cross against the United States Dollar (USDJPY) has broken above the key 160 level, meaning the JPY is at lows not seen since the mid-1980s. Japan's fiscal or monetary policy guidance, along with any threats of intervention, appear to be weak and largely ignored by the market. Also, with no circuit breakers in sight, the Yen remains on the defensive.

The record weakness in JPY comes despite:

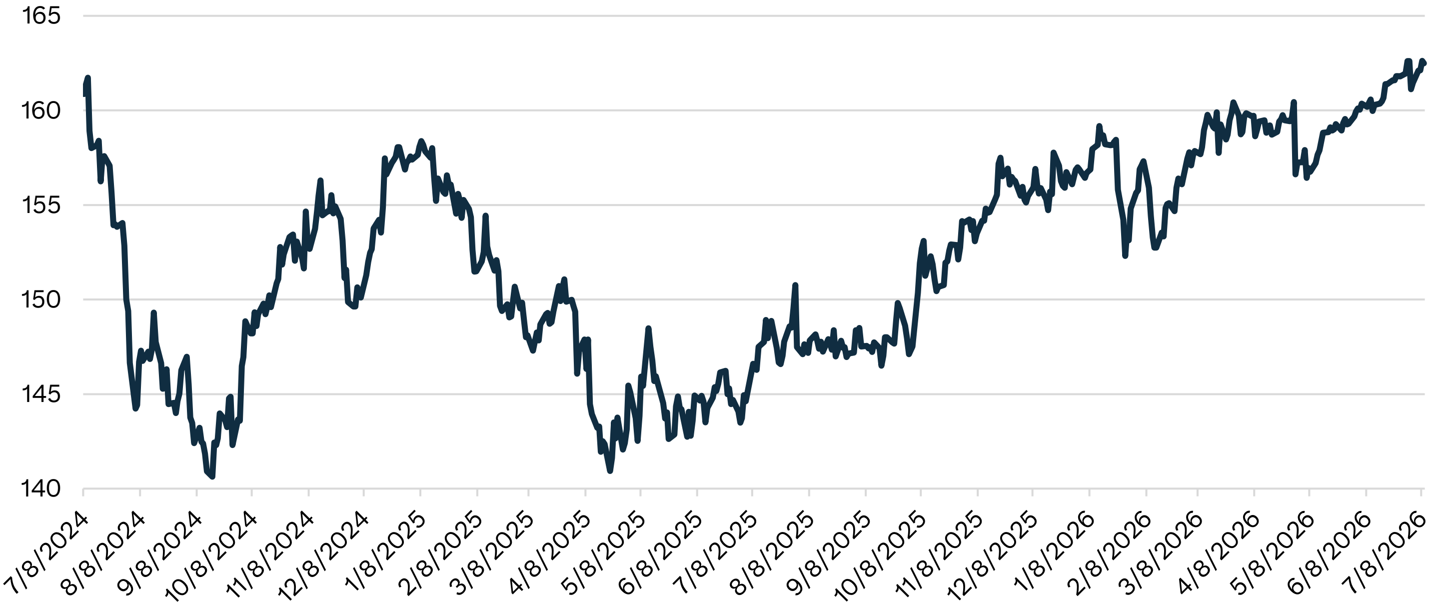
- US–Japan nominal rate differentials having more than halved since the Bank of Japan (BoJ) started to lift rates from negative and near zero in March 2024. This makes Yen funding to buy offshore assets, also known as the Yen carry trade, significantly less attractive.
- Repeated FX intervention threats by Japanese policymakers who have apparently named the United States Treasury Department as a potential partner to help intervene.
- Speculative positioning in Yen once again approaching the record shorts last seen two years ago (July 2024) that led to the unwinding of the Yen carry trade in the subsequent months from around July to September.

The Yen is being driven to record lows from:

- Japan's sensitivity to energy supply shocks. Nearly 95% of Japan's imported oil comes from the Middle East, and renewed tensions between Iran and the United States are likely to further stress Japan's vulnerability.
- The muted impact from threats of intervention. Part of the reason may be that investors are aware of the International Monetary Fund's (IMF) rule where a currency is classified as freely floating only if interventions are infrequent - no more than three instances within six months. Japan intervened twice in rapid succession in April and May this year, selling around US$34.5 billion and US$30 billion respectively to shore up the Yen. Investors may be eyeing the next intervention at the end of November at the earliest.
- Fading monetary policy credibility. The BoJ's cautious stance in raising rates to address inflation is leading investors to question the BoJ's price stability mandate. Prime Minister Sanae Takaichi's administration said it would add "appropriate money management" to the central bank's reform mandate, but how it aligns with the BoJ's own price stability directive is unclear. Investors believe the phrase is there to pressure BoJ to keep rates low for longer. The phrasing has since been tweaked to "appropriate monetary management that contributes to stable price increases" but that is likely a reaction to appease markets that its price stability mandate is not being compromised. However, markets remain unconvinced.
- Fading fiscal credibility. The government's attempts to shore up household spending via fiscal subsidies has rocked the Japan Government Bond (JGB) market. Yields for the 10-year and 30-year bonds are up 60 and 90 basis points respectively since the start of 2026. They sit at relatively attractive levels but have thus far, failed to attract repatriation, with many Japanese funds electing to move from foreign bonds into foreign equities rather than repatriate into domestic bonds this past quarter. The government is also trying to nudge domestic funds such as the government–owned pension fund, known by its GPIF acronym, to shift its asset allocation more towards domestic bonds and help strengthen the Yen.
- Hedging. Offshore buying of Japanese AI and exporter related equities has been largely FX hedged, which probably explains why a stronger Nikkei has been associated with a weaker Yen.

BOTTOM LINE: There needs to be a circuit breaker, but it is getting harder to point to one. While a stronger USD may also be a reason the psychological 160 mark has been decisively breached, Japan needs to restore fiscal and monetary policy guidance credibility and distinguish empty threats from intervention before the negative market sentiment potentially makes it even worse for the Japanese Yen.

FIGURE 1: USDJPY has decisively broken through the 160 level



Source: Bloomberg, July 9, 2026. Past performance is no guarantee of future results. Real results may vary.

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