CIO Perspectives

The Yen's Rapid Appreciation Amid Suspected Currency Intervention and the Outlook for Dollar-Yen Exchange Rate

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On the evening of July 30 JST, the yen strengthened sharply against the U.S. dollar, with the dollar-yen exchange rate falling from the 163-yen range to below 158 yen at one point. This move is likely to have been triggered by official currency intervention. Reports also indicated that the Federal Reserve Bank of New York conducted a rate check around the same time. In addition, U.S. Treasury Secretary Scott Bessent stated that the yen was significantly undervalued. These developments suggest that the intervention was carried out after the prior consultation with the U.S.

Following the intervention, the yen was trading in the 160-yen range as of 12:30 p.m. JST on July 31, after the Bank of Japan's monetary policy meeting. The yen had weakened to levels approaching 164 per dollar on July 23. On July 28, Finance Minister Satsuki Katayama stated that Japan and the U.S. shared a policy of taking action as necessary.

Very recently, Japan's financial markets had begun to show signs of a "mini-triple weakness": a weaker yen, a stock market undergoing a correction from its highs, and a Japanese government bond market facing renewed concerns about rising yields.

On July 30, Prime Minister Sanae Takaichi announced a plan to reduce the consumption tax rate on food products to 1% from next April, compared with the current rate of 8%. Against this backdrop, we believe that the currency intervention may have been intended partly to ease selling pressure on the yen stemming from concerns about worsening Japanese fiscal conditions as a result of expansionary fiscal policy.

Moreover, given that the yen has often weakened following the Bank of Japan's monetary policy meetings in the past, the intervention may also have been aimed at discouraging such a move ahead of today's policy announcement, at which the Bank of Japan (BOJ) ultimately decided to leave interest rates unchanged.

We expect the yen exchange rate to remain highly volatile in the short term, under the influence of two-way pressure: caution over further currency intervention and dollar-buying based on the view that the yen's recent appreciation will be temporary. Although we are mindful of the possibility that U.S. monetary policy could shift from its recent easing stance toward a more tightening-oriented direction, we believe that continued monetary tightening by the BOJ will help prevent a one-sided depreciation of the yen.

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