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US-Japan Yen Intervention: More Than a Currency Story

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Executive Summary

The Yen Intervention and Its Global Implications

- The US and Japan jointly intervened to support the yen after it fell to a four-decade low near ¥164 per dollar. Japan accounted for most of the operation, with intervention estimated at up to $85 billion over July 30–31, while the smaller US contribution carried significant symbolic weight.
- Washington's participation marked the first bilateral US intervention in the yen since 1998. The New York Fed bought yen on behalf of the Treasury by selling euros rather than dollars, signalling US willingness to counter further yen depreciation while limiting additional pressure on dollar assets.
- US involvement also reflected concerns about spillovers into the Treasury market. Larger Japanese interventions could require Tokyo to mobilise its substantial US Treasury holdings, potentially pushing yields higher at a time of elevated borrowing costs. Supporting the yen therefore serves both Japanese currency stability and US financial-market interests.
- The intervention may also point to a broader shift in global capital flows. BoJ normalisation could gradually weaken the yen carry trade and reverse some Japanese investment abroad, reducing global liquidity and demand for foreign assets.
- The episode also echoes aspects of the Plaza Accord, as a stronger yen could simultaneously ease Japan's policy pressures, support US competitiveness and reduce risks to the Treasury market.

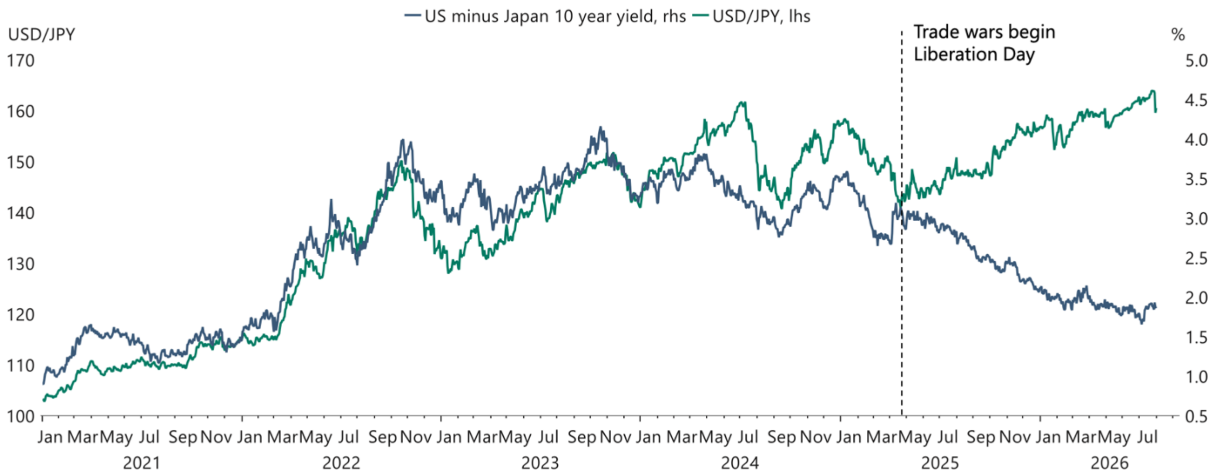
The Yen's Structural Weakness

- The yen's weakness reflects the wide US-Japan interest-rate gap, which continues to encourage capital flows into higher-yielding US assets and support the yen carry trade.
- Japan faces a difficult policy trade-off, as faster BoJ rate hikes could strengthen the yen but sharply increase debt-servicing costs on public debt exceeding 200% of GDP.
- The carry trade creates wider financial-stability risks, as a rapid yen appreciation could force investors to unwind positions in US Treasuries, technology stocks and other global assets.
- Japan's vulnerabilities extend beyond the yen and JGBs, with record foreign ownership of Japanese equities increasing the risk that currency instability spills into the stock market.

The Limits of Currency Intervention

- The yen has already surrendered roughly half of its post-intervention gains, showing that intervention can temporarily disrupt speculative positions but cannot overcome the underlying US-Japan rate differential.
- Without faster BoJ tightening or lower US yields, pressure on the yen is likely to persist, potentially requiring further intervention and creating renewed risks for global financial markets.

Key Picture: USDJPY Stopped Following Interest Rates After Liberation Day in April 2025



Source: Apollo Global Management

The United States and Japan have taken the unusual step of jointly intervening in foreign exchange markets to support the yen after the Japanese currency fell to its weakest level in four decades. The intervention pushed the dollar down from around ¥164 to almost ¥155-156, providing an initially sharp recovery in the yen. Japan accounted for the overwhelming majority of the operation: Goldman Sachs estimates that Tokyo intervened by as much as $85 billion over July 30 and 31, making it its largest two-day intervention outside October 2011. The US operation was considerably smaller, but its significance was largely symbolic, signalling that Washington was willing to join Tokyo in resisting further yen depreciation.

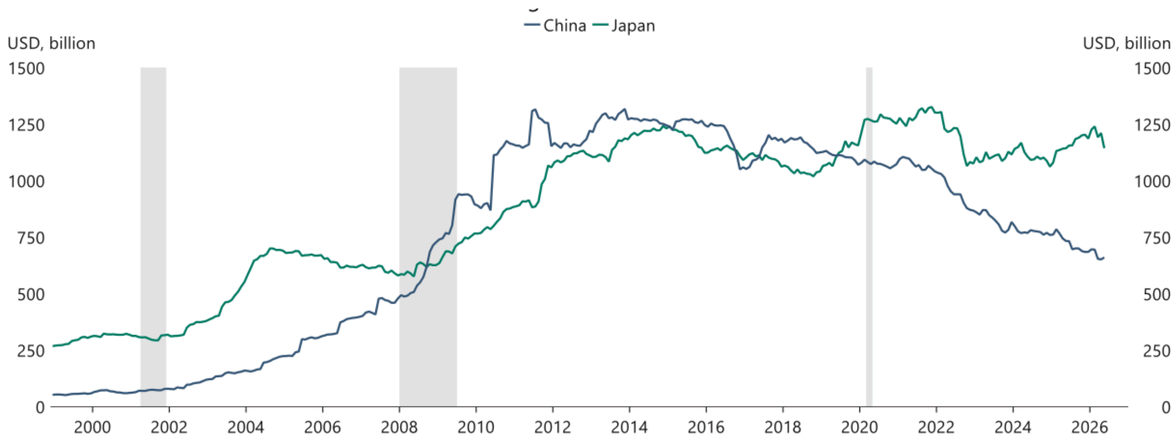
The US intervention was particularly unusual. Treasury Secretary Scott Bessent authorised the first bilateral US intervention in the yen since 1998, with the Federal Reserve Bank of New York buying yen on behalf of the Treasury. Rather than selling dollars, however, the US sold euros to purchase the Japanese currency, reportedly without consulting European authorities beforehand. This added considerable weight to Japan's own efforts, helping pull the dollar down from its four-decade high and signalling to investors that continued speculative pressure against the yen could potentially trigger further coordinated action.

Why Did Washington Intervene?

Washington's decision to participate appears to have been about more than simply helping Japan defend its currency. Goldman Sachs argues that US involvement was partly intended to contain volatility in American financial markets. Japan's large holdings of US government securities create a direct link between yen weakness and the Treasury market: if Tokyo needs to conduct increasingly large interventions, it may have to mobilise its Treasury holdings to obtain dollars, adding upward pressure to US yields at a time when borrowing costs are already elevated. By supporting the yen, Washington could therefore reduce the risk of Japanese Treasury sales and contain spillovers into US bond markets.

The episode also highlights the broader role of Japanese capital in global markets. For decades, Japan's ultra-low interest rates supported the yen carry trade, encouraging investors to borrow cheaply in yen and channel funds into higher-yielding foreign assets. As the BoJ gradually normalises monetary policy and unwinds quantitative easing, some of these flows could reverse, reducing a longstanding source of global liquidity and demand for foreign assets. At the same time, rising borrowing by technology companies to finance AI infrastructure, data centres, semiconductors and power is increasing demand for capital. Together, these forces could contribute to tighter financial conditions and greater upward pressure on long-term yields.

Figure 1: Holdings of US Treasuries



Source: Apollo Global Management

The intervention also draws parallels with the 1985 Plaza Accord, when the US coordinated with Japan and other major economies to weaken an overvalued dollar and address trade imbalances. The circumstances today are different, the current operation is much narrower and aimed primarily at stabilising the yen, but some US interests overlap. A stronger yen and weaker dollar could improve US export competitiveness, while reducing the pressure on Japan to sell Treasuries or tighten monetary policy aggressively.

Washington's support for the yen therefore reflects mutual economic interests rather than simply assistance to Japan. For Tokyo, a stronger currency eases imported inflation and reduces pressure for aggressive BoJ tightening; for Washington, it can limit disruption in the Treasury market while supporting a more competitive dollar. More broadly, the intervention may be an early indication of a gradual adjustment away from decades of cheap Japanese funding and global carry trades, with potentially significant consequences for US yields, liquidity and asset prices

Why Has the Yen Become So Weak?

The immediate problem confronting policymakers is rooted in the persistent divergence between Japanese and US interest rates. Although the BoJ has gradually moved away from years of ultra-loose monetary policy, raising its policy rate from zero to 1%, Japanese rates remain substantially below those in the US. At the same time, elevated US inflation and concerns over the credibility of US monetary policy have kept Treasury yields high. The result is a powerful incentive for investors to sell yen and move capital into higher-yielding dollar assets.

This differential has helped revive the yen carry trade, in which investors borrow cheaply in yen and invest the proceeds in higher-yielding assets abroad, including US government bonds and technology stocks. The strategy is particularly attractive when market volatility is low and investors expect exchange rates to remain relatively stable. Recent market activity suggests that speculative pressure remains significant: net short positions against the yen remain large by historical standards, while yen selling has been particularly concentrated during London and US trading hours.

The carry trade also creates a broader financial-stability problem. A sudden strengthening of the yen can force investors to reverse these positions rapidly, selling the foreign assets they purchased with borrowed yen. Similar conditions emerged in August 2024, when rapid yen appreciation generated volatility across global financial markets. While analysts currently see the risk of a disorderly unwind as relatively limited, another sharp reversal could affect assets ranging from US technology equities to emerging-market securities.

Japan's Monetary Policy Trap

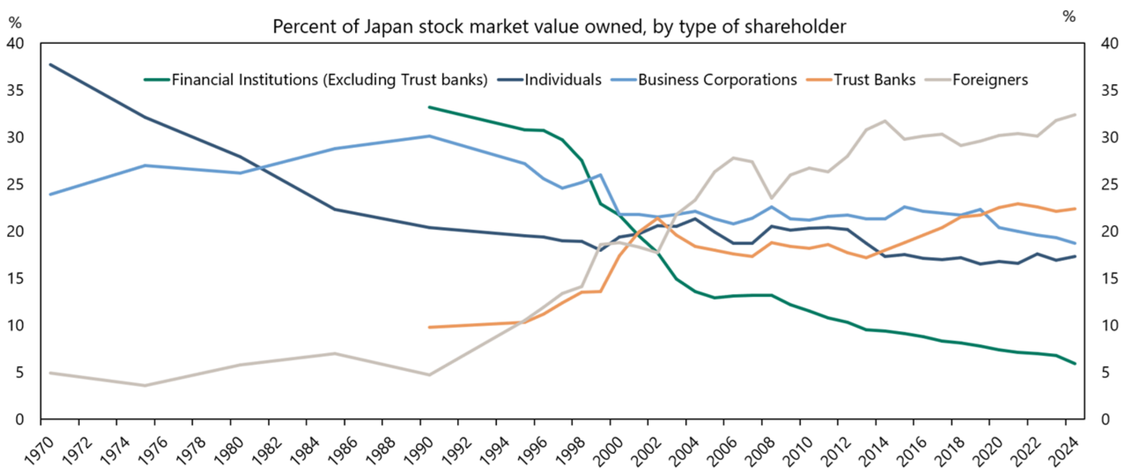
Yet intervention cannot resolve the fundamental source of the yen's weakness. In principle, the clearest way to support the currency would be for the BoJ to raise interest rates more aggressively, narrowing the gap with the US. But Japan's enormous public debt makes this difficult. Decades of near-zero interest rates allowed the government to accumulate debt exceeding 200% of GDP while keeping debt-servicing costs manageable. They also transformed the BoJ into the dominant participant in the Japanese government bond market: its share of outstanding JGBs rose from 11.6% in 2013 to a peak of 53.9% in 2023 and remains around 49%.

Normalising policy therefore carries significant fiscal risks. Recent rate increases have already pushed debt-servicing costs to around ¥31 trillion in fiscal 2026, equivalent to roughly a quarter of government spending. Ministry of Finance projections suggest that servicing costs could reach around one-third of expenditure within three years. Meanwhile, the BoJ has already slowed the reduction of its bond holdings to avoid triggering a disorderly increase in yields.

Japan is consequently caught between competing objectives. Keeping rates low supports the economy and limits the government's debt burden but encourages capital outflows and further yen weakness. Raising rates could support the currency and contain imported inflation, but at the cost of higher government borrowing costs and potentially greater instability in the JGB market.

These vulnerabilities extend beyond the currency and government bond market. Foreign investors now own a record 32.4% of Japanese equities, leaving the stock market increasingly exposed to shifts in overseas capital. At the same time, the yen’s traditional relationship with the US-Japan interest-rate differential has weakened, with fiscal concerns becoming a more important driver of the currency. With foreign investors holding nearly a third of the market, renewed yen instability could therefore trigger equity outflows, amplifying volatility across Japanese financial markets.

Figure 2: Foreigns Own 33% of Japanese Equities



Source: Apollo Global Management

Intervention Is Already Losing Its Impact

Against the backdrop, the limits of currency intervention are already becoming apparent. After strengthening from around ¥164 to almost ¥155 following the joint action, the yen has surrendered roughly half of those gains, with the dollar returning to around ¥159. Investors have continued rebuilding bearish positions, suggesting that the intervention altered positioning temporarily without fundamentally changing the incentives driving the market.

The absence of broader international coordination may also have weakened its impact. The European Central Bank was reportedly not consulted before Washington sold euros, contrasting with the coordinated G7 intervention following Japan's 2011 earthquake. Investors argue that coordinated central-bank action can carry greater credibility because it demonstrates a unified policy position.

Ultimately, the durability of the yen's recovery will depend less on the scale of intervention than on the underlying macroeconomic forces. As long as US yields remain high and the BoJ proceeds cautiously with rate increases, investors retain a strong incentive to borrow or sell yen and hold higher-yielding assets elsewhere. Intervention can make that trade more dangerous and buy policymakers time, but it cannot permanently eliminate the interest-rate differential supporting it.

The intervention therefore illustrates the increasingly close relationship between Japanese monetary policy and global financial stability. Yen weakness is no longer solely a Japanese problem: it is intertwined with the carry trade, US asset prices and the Treasury market. Washington's decision to intervene shows that US policymakers recognise those connections. But the yen's renewed decline also demonstrates the limits of intervention. Without a more fundamental shift in Japanese monetary and fiscal policy — or a decline in US yields — Tokyo and Washington may find themselves repeatedly confronting the same pressures they sought to contain.