

FX Viewpoint

JPY: A tipping point to occur, albeit with some delay

- ◆ The BoJ just said it would reduce bond purchases but delayed providing details until its July meeting...
- ◆ ...and there have been some other positive developments for the JPY against some currencies, except notably, the USD
- ◆ The Fed's tipping point is delayed; but when it happens, USD-JPY will probably end up lower in the next 12 months

Since late May, the JPY has strengthened against some G10 currencies, amid some positive developments:

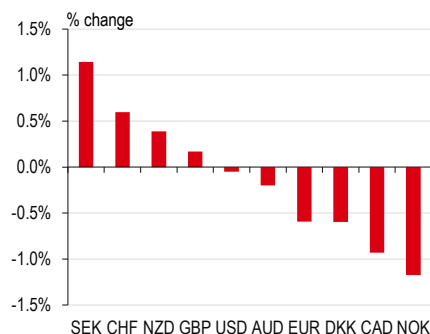
1. **More G10 central banks are starting to cut rates.** The European Central Bank (6 June), the Bank of Canada (5 June) and Sweden's Riksbank (8 May) recently joined the Swiss National Bank (21 March) in bringing down rates.
2. In stark contrast, **the Bank of Japan (BoJ) normalised the policy from ultra-loose settings in place for over a decade.** The BoJ's policy rate was lifted into positive territory on 19 March, and our economists expect another tweak to bring it to 0.25% at its 30-31 July meeting, followed by two 25bp rate hikes in 2025. On 14 June, the BoJ kept its policy rate unchanged, and **said it would reduce bond purchases but delayed providing details until its 30-31 July meeting.**
3. **Japan's Ministry of Finance (MoF) intervened in FX market at the turn of May.** It sold USD62bn to buy JPY9.8trn, and the MoF said that the intervention "had a certain effect" (*Bloomberg*, 4 June 2024). Indeed, speculative short JPY positioning is now not quite as extreme as before the intervention (Chart 2).

More G10 central banks are cutting rates

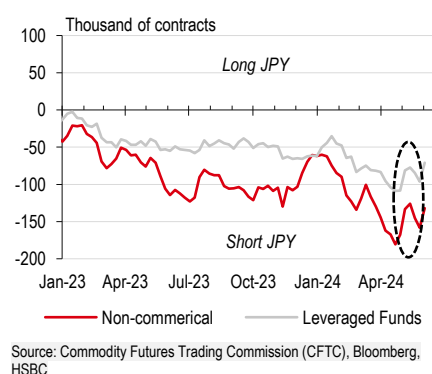
The BoJ would reduce bond purchases but delayed providing details until its July meeting

Japan's FX intervention has somewhat reduced JPY speculation

1. G10 currencies vs. JPY: Month-to-date performance



2. JPY speculative net positions



However, the JPY remains stubbornly weak against the USD (Chart 1 again) and has diverged from its primary driver historically, i.e., the US-Japan rate differential. We still think USD-JPY will end up lower in the next 12 months, but **the tipping point is likely to occur later this year, when the US Federal Reserve (Fed) likely cuts rates and markets focus more on the risks around the US election.** Our economists expect the Fed to start cutting rates in September 2024, while markets are fully pricing in a 25bp cut by November 2024 (*Bloomberg*, 13 June 2024), after the latest Federal Open Market Committee's (FOMC) median interest rate projection for 2024 suggests only one 25bp cut, a change from March projection of three rate cuts. For our view on the FOMC June meeting, please refer to [FX Viewpoint Flash: USD gains, as the Fed signals just one cut in 2024](#).

We still expect the JPY to strengthen against the USD over the next 12 months

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