

FX Viewpoint

Currencies
Global

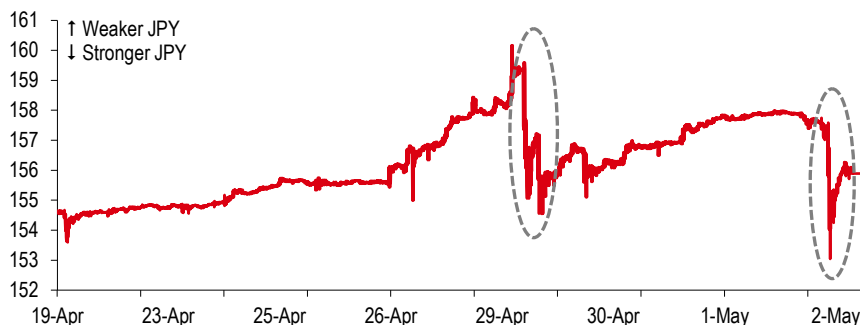
USD-JPY: Signs of intervention?

- ◆ Strong JPY bounces raises speculation of FX intervention
- ◆ Intervention is more likely to be successful...
- ◆ ...if there is a combination of the Fed's easing, coordination with the US, and a solution to an underlying fundamental issue

The JPY has weakened about 8% against the USD so far this year, with USD-JPY hitting 160, albeit briefly. The recent spikes in the JPY against the USD have fuelled speculation about FX intervention (see the chart below). The intraday high-low ranges are more than 3%, and **USD-JPY has only seen this kind of intraday moves on five occasions over the past couple of years. Two of those were related to Japan MoF's intervention** (9 September 2022 and 21 October 2022). The remaining three were driven by key events, including downside surprise in US CPI on 10 November 2022 (the broad USD dropped sharply), a surprise yield curve control (YCC) modification by the Bank of Japan (BoJ) on 20 December 2022, and perceived hawkish comments from BoJ Governor Ueda on 7 December 2023.

The JPY jumped amid suspected FX intervention

The JPY's recent brief spikes have fuelled speculation about intervention



Source: Bloomberg, HSBC (Market data was updated on 2 May 2024 at 12:00nn)

Officials from Japan's Ministry of Finance (MoF) declined to comment on recent movements of the JPY (*Nikkei*, 2 May 2024). We can only confirm whether Japan did intervene and by how much at the end of May when the MoF releases its monthly intervention data. Recall that Japan sold cUSD63bn over three occasions in September-October 2022 to support the currency. As **Japan has over USD1.2trn of FX reserves**, of which about USD160bn is in deposits and USD1trn in securities (*Bloomberg*, 31 March 2024), reserves adequacy should not be a concern.

Japan has ample FX reserves

Our study on the three sell USD-JPY intervention episodes: 1989-90, 1997-98, and 2022 suggests that FX intervention is more likely to be successful if there is some kind of **coordination with the US** (actual USD sales or a statement or verbal endorsement) and if the **Federal Reserve (Fed) cuts rates**, or if there is **some kind of solution to an underlying fundamental issue**. Indeed, Japan is already starting to emerge from its underlying issue of deflation and extraordinarily loose monetary policy. **Our economists expect the next 25bp rate hike by the BoJ to take place in 3Q24**, followed by two more 25bp hikes in 2025. As for the Fed's policy rate path, our economists expect the first 25bp rate cut to be in September 2024, followed by three more cuts next year. There is also a weak form of implicit US approval from the joint statement of US-Japan-Korea on 17 April. It seems like the pieces of the puzzle are slowly falling into place.

Conditions for a successful intervention appear to be gradually met

As such, we still look for a modest JPY recovery later in the year. But for now, **FX intervention can disrupt momentum and make speculators warier towards extending short JPY positions.**

We still expect a modest JPY recovery later in the year

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