FX Pulse

FICC Research Dept.

Accelerating yen depreciation

- Yen depreciation has gained momentum in the absence of strong warnings by the government regarding forex rates
- Expansionary fiscal policy is also fueling yen weakness, running counter to measures to address inflation

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December FOMC could go either way

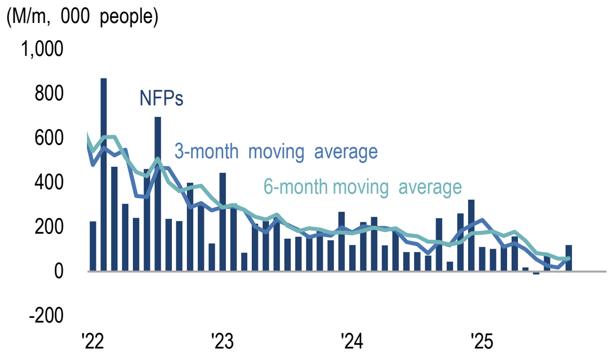
The release of economic statistics, which had been postponed due to the influence of the US government shutdown, has finally resumed. In the US jobs report for September, released on 20 November, non-farm payrolls (NFP) increased by 119,000 m/m, significantly exceeding the forecast of +53,000 (Chart 1). On the other hand, the figures for the previous two months were revised downward by a total of 33,000 (Jul: from +79,000 to +72,000; Aug: from +22,000 to -4,000). As a result, the three-month moving average, which represents employment momentum, increased to +62,000 from the previous month's downwardly revised +18,000, while the six-month moving average remained flat from the previous month at +59,000.

The unemployment rate rose to 4.4% (4.44% before rounding) from the previous month's 4.3% (4.324% before rounding), contrary to market expectations of 4.3%. However, the U-6 rate, the broadest measure of unemployment which includes part-time workers for economic reasons, declined slightly. The rise in the unemployment rate occurred alongside a recovery in the labor force participation rate for the 16-24 age group, suggesting it does not indicate a sharp deterioration in the labor market.

This latest employment data left ample room for both hawks and doves to support their respective arguments. Furthermore, with the U.S. Bureau of Labor Statistics (BLS) announcing that it will not release the ―jobs report for November (and part of Oct report) until after the December FOMC meeting, the outcome of the December meeting could go either way.

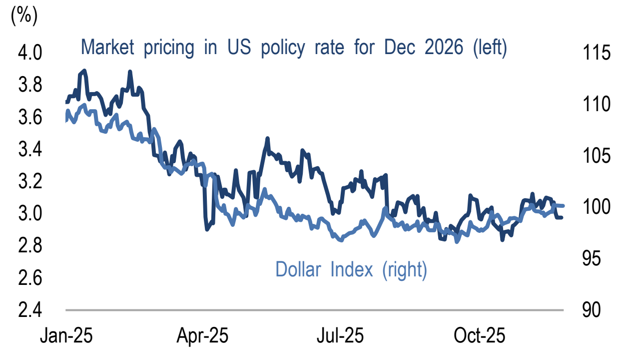
Based on the content of the October FOMC minutes, it appeared that the committee was leaning towards skipping a rate cut at the December meeting. However, following comments from New York Fed President John Williams on 21 November—"I view monetary policy as being modestly restrictive, although somewhat less so than before our recent actions. Therefore, I still see room for a further adjustment in the near term to the target range for the federal funds rate to move the stance of policy closer to the range of neutral, thereby maintaining the balance between the achievement of our two goals."—the market-implied probability of a rate cut has risen from about 30% to about 65%. Nevertheless, while market pricing for the terminal rate and other factors has hardly changed, the Dollar Index has remained firm, contrary to the rising probability of a December rate cut (Chart 2).

Chart 1: Change in US NFPs



Source: US Department of Labor; compiled by Daiwa.

Chart 2: Market Pricing in US Policy Rate for 2026, Dollar Index



Source: Bloomberg; compiled by Daiwa.

Yen depreciation accelerating in the absence of warnings regarding forex rates

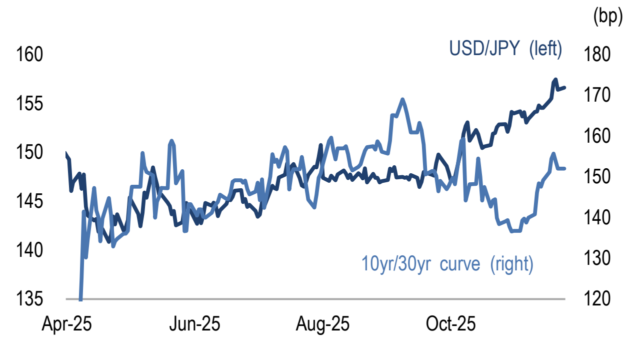
On 19 November, a trilateral meeting was held among BOJ Governor Kazuo Ueda, Minister of Finance Satsuki Katayama, and Minister of State for Economic and Fiscal Policy Minoru Kiuchi. After the meeting, Finance Minister Katayama stated that she had called this meeting from the perspective of ensuring the government and the BOJ continue to coordinate closely on economic policy operations under the new administration, and added that there had been no specific discussion about foreign exchange. When it was reported that there had been no in-depth discussion about foreign exchange, the yen's depreciation accelerated.

With the USD/JPY rate reaching the Y157 level, Chief Cabinet Secretary Minoru Kihara commented about the yen's depreciation in the forex market at a press conference on the 20th, stating, “We are concerned about the recent one-way and sudden movements.” Then, on the 21st, Finance Minister Katayama stated that the government would take appropriate action as necessary with regard to excessive fluctuations and disorderly movements in the forex market, including speculative trends, based on the opinion of the U.S.-Japan Finance Ministers’ Joint Statement issued in September. In response to a question about whether this included currency intervention, she replied, “Since the Japan-US finance ministers' paper in September clearly included FX intervention, that's naturally something we can consider.” While declining to comment specifically on recent movements—stating that commenting on the forex market could have an unforeseen impact on the market—she added that the MOF was concerned that the movements are extremely one-sided and rapid.

Another factor that intensified yen selling last week was the cabinet's approval of a comprehensive economic package totaling Y21.3tn. As the scale of the package exceeded initial expectations, yen selling progressed in tandem with the selling of JGBs (Chart 3). If the ongoing yen depreciation were to offset the effects of the government’s inflation measures, for which public expectations are high, the massive economic package would end in failure. The current yen weakness is a result of the market rejecting reflationary policies amid inflation. The economic environment is completely different from that when Abenomics was introduced, so there is a need to move away from simple reflationary policies and transition to more balanced policies.

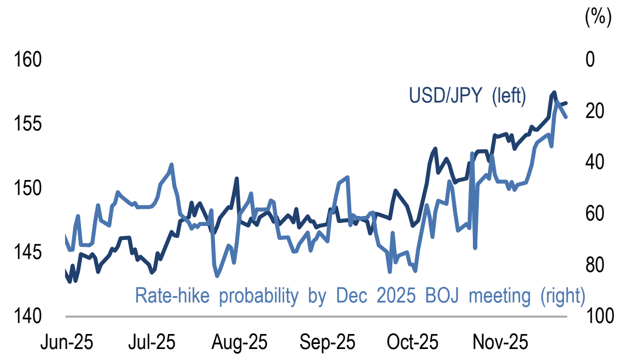
Monetary policy in particular has become excessively accommodative, causing various distortions. Therefore, the degree of monetary easing should be adjusted. Prime Minister Sanae Takaichi met with BOJ Governor Ueda regarding this issue at the Prime Minister's Office on 18 November for the first time since taking office. Governor Ueda reportedly conveyed that he was gradually adjusting the degree of monetary easing to ensure the inflation rate sustainably and stably settled at 2%, to which the Prime Minister responded that she understood, saying, “I see.” Governor Ueda also stated that there were no particular requests or demands from the Prime Minister.

Chart 3: 10yr/30yr JGB Yield Curve, USD/JPY Rate



Source: Bloomberg; compiled by Daiwa.

Chart 4: Pricing in of BOJ Rate Hikes by Market, USD/JPY Rate



Source: Bloomberg; compiled by Daiwa.

Despite Prime Minister Takaichi having made a comment that could be interpreted as her accepting the BOJ's adjustment of its monetary easing—saying "I see"—the trend towards yen depreciation has not changed (Chart 4). With Prime Minister Takaichi personally feeling that "the government holds the ultimate responsibility" for monetary policy, this trend is likely occurring because market participants cannot eliminate the possibility that the BOJ might fall behind the curve due to political pressure.

Moreover, comments from private-sector reflationist members in the government's Growth Strategy Council are adding noise to the situation, contributing to the yen's weakness. In an interview on the 17th, Mr. Goushi Kataoka expressed the view that a rate hike in December was unlikely because the Jul-Sep GDP showed negative growth, that many businesses would be on vacation during the year-end and New Year holidays, so the economic data available for the BOJ's January meeting would be almost the same as in December, and that there would be no incentive to hike rates in January if there were no rate hike in December. In an interview on the 20th, Mr. Takuji Aida also shared his view that the timing of the BOJ's next rate hike would be next January, taking into account the *Outlook for Economic Activity and Prices* report and the branch managers' meeting. He thought that would be the commonsensical decision. He stated that if the BOJ were to raise rates in December, mindful of the potential dissolution of the Lower House in January, it would be perceived as a central bank that indeed turned out to be incapable of coordinating with the government.

On 20 November, BOJ policy board member Junko Koeda delivered her first speech since taking office. She commented about the underlying inflation rate, which excludes temporary factors, stating that, overall, she believed that underlying inflation was about 2%. She argued that this was a key indicator for the BOJ in making monetary policy decisions, and stated, "the Bank needs to proceed with interest rate normalization—that is, to return real interest rates to a state of equilibrium—so as to avoid creating unintended distortions in the future." She pointed out the risks of continuing monetary easing, given the extremely low real interest rates, saying "I believe it is necessary that the Bank continue to raise the policy interest rate and adjust the degree of monetary accommodation in accordance with improvement in economic activity and prices." She noted that "real interest rates are ... at clearly low levels relative to other economies" and said, "Even if the negative range of the real interest rate narrows slightly, I believe that it is highly likely that financial conditions will continue to be accommodative, thereby continuing to stimulate consumption and investment."

Additionally, policy board member Kazuyuki Masu, who took office in July 2025, gave an exclusive interview to *Nikkei* that was reported on the 22nd. He stated, "Looking at the economic and price situation, I do think the environment is favorable for raising interest rates." He expressed the view that low interest rates were undesirable, as they had become, for example, a major factor in the rise in real estate prices, and pointed out that a decision on a rate hike was getting closer, although he could not specify the month. When asked about its relationship with the Takaichi administration, he reportedly said that, as before, it was important to maintain sufficient communication with the administration, that “the BOJ has adjusted interest rates to reach the target of stable 2% inflation,” and that “I think we’ve been able to have them understand that we’re close to achieving that goal."

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