Daiwa Securities

# FX Pulse

## Limits of Japan-US coordinated intervention and key issues for the yen

- A break below Y155 or a return to Y160?
- Dilemma between the “strong dollar policy” and coordinated intervention
- Japan’s policy credibility will be tested beyond FX intervention

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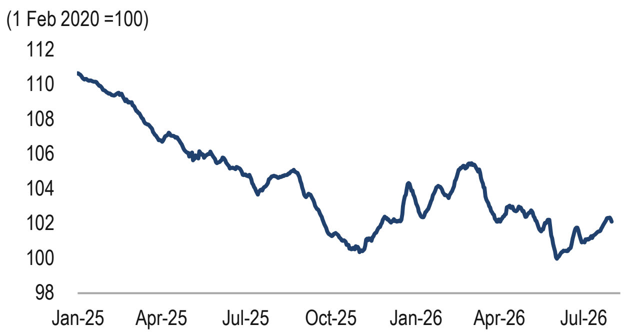
### US employment decline contains noise; Fed’s focus turns to CPI

The July US jobs report released on 7 August showed that nonfarm payrolls (NFP) declined by 23,000 from the previous month, contrary to the market consensus of an increase of 80,000. The figures for the preceding two months were also revised downward by a cumulative 103,000. The unemployment rate fell to 4.1% (4.090% when measured to three decimal places), from 4.2% in the previous month. However, the labor force participation rate declined further to 61.4%, its lowest level in approximately five and a half years, since February 2021.

That said, part of the decline in employment in July appears to have been temporary. The main drag on employment was the education sector of local government, where payrolls fell by 50,000 from the previous month, most likely reflecting noise associated with seasonal adjustments for the summer vacation period. In the private sector, employment in leisure and hospitality also declined sharply for the second consecutive month, possibly due in part to the conclusion of the FIFA World Cup.

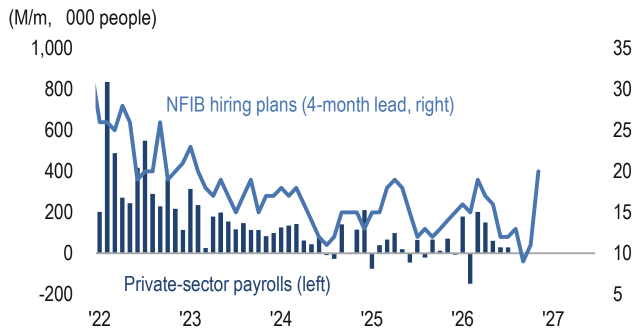
Private-sector employment increased by 30,000 from the previous month, unchanged from the previous month’s pace, a result consistent with labor market leading indicators and high-frequency data. Daily data on job postings from Indeed peaked in mid-March (Chart 1), while the hiring plans component of the NFIB Small Business Optimism Index suggests that growth in private-sector employment could slow through the summer (Chart 2). On the other hand, the NFIB Hiring Plans Index points to the possibility that the pace of job creation could accelerate again toward around November. At present, therefore, there are no signs of an abrupt deterioration in the US labor market.

**Chart 1: Job Postings on Indeed**




*Source: Indeed; compiled by Daiwa.*

**Chart 2: Private-sector Payrolls, NFIB Hiring Plans**




*Source: US Department of Labor, NFIB; compiled by Daiwa.*

Overall, although the latest results may contain a certain degree of noise, the labor market cannot be characterized as weak and may reasonably be assessed as stable. The Fed's current policy priority is achieving price stability, and the jobs report did not alter that direction. Fed Chair Kevin Warsh has stated that the Fed would be prepared to raise the policy rate if the inflation indicators to be released over the coming weeks prove strong and market expectations of rate hikes increase. The immediate focus will therefore be the July US CPI report due on 12 August, and attention should be paid to how the result changes the extent to which rate hikes from September onward are priced into the market.

### A break below Y155 or a return to Y160?

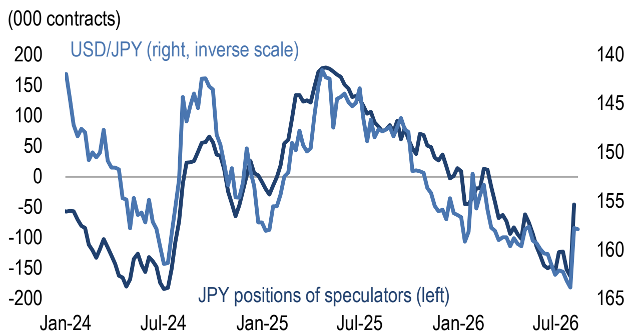
At the end of last week, the shock from the US jobs report prompted broad-based dollar selling, sending USD/JPY temporarily down to Y156.68. However, the authorities did not conduct follow-up intervention to capitalize on the market reaction to the jobs report. USD/JPY subsequently recovered to the upper Y157 range, but closed below its 200-day moving average for the second consecutive week.

As discussed above, the July US CPI report due on 12 August will be the most closely watched event this week. If US CPI undershoots market expectations and intensifies downward pressure on the dollar, a key focus will be whether the authorities seize the opportunity to conduct additional intervention. Such a scenario would resemble that of July 2024, when the authorities conducted yen-buying intervention as the dollar weakened following a softer-than-expected US CPI report.

IMM currency futures positioning showed that, as of 4 August, speculative net short yen positions held by non-commercial traders stood at 45,473 contracts—a 70% reduction in net shorts compared to the previous week, following the Japan-US coordinated yen-buying intervention (Chart 3). According to the participant breakdown in the Traders in Financial Futures (TFF) report, asset managers halved their net short yen positions from 83,057 contracts in the previous week to 42,422 contracts, while leveraged funds reduced net yen shorts by 40%, from 101,990 contracts in the previous week to 60,824 contracts (Chart 4).

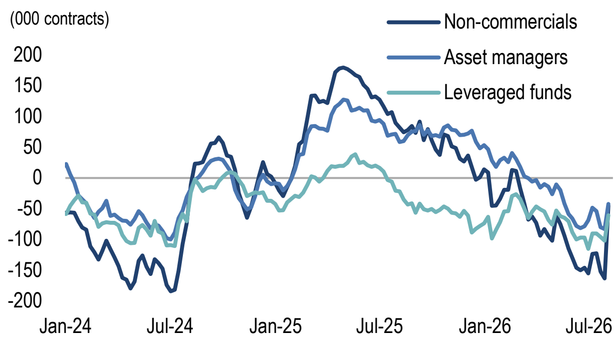
The Y155 level is increasingly being viewed an important threshold for USD/JPY. Nevertheless, a certain amount of speculative yen short positioning remains, and a further unwinding of those positions could push USD/JPY into the lower Y150 range. However, if even the exceptional measure of Japan-US coordinated intervention fails to keep USD/JPY below Y155, as was the case during the intervention around the Golden Week holiday period, the strength of support near Y155 is likely to attract renewed attention.

**Chart 3: JPY/USD Rate, JPY Positions of Speculators**




*Source: CFTC, Bloomberg; compiled by Daiwa.*

**Chart 4: JPY Positions of Non-Commercials, TFT Statistics**




*Source: CFTC, Bloomberg; compiled by Daiwa.*

In the short term, if USD/JPY breaks below Y155, the expected trading range would likely be Y150-155. If it fails to break below Y155, the expected range would likely be Y155-160. In addition, if USD/JPY rebounds to Y159.59, the market may increasingly embrace the view that "a 50% retracement is followed by a full retracement" and start pricing in another test of around Y164, near the highs recorded before the intervention.

### Dilemma between the "strong dollar policy" and coordinated intervention

Asked on 4 August whether the US would conduct further foreign exchange intervention, US Treasury Secretary Scott Bessent said that the two governments had been in close contact. He added that, in the interest of global economic stability, "We will do whatever it takes to support them in a way that helps the American economy, the American taxpayer."

These remarks indicate that the US views the yen's depreciation not merely as an issue specific to Japan, but as a matter that could also affect the stability of the US Treasury market and the global economy. Given the risk that disruption in Japanese markets could trigger US Treasury selling and lead to higher US long-term yields, it is natural for the US to have a certain degree of interest in stabilizing the yen.

Meanwhile, according to the *Nikkei*, a senior US government official explained that yen purchases funded by euro sales were used in the latest coordinated intervention because the US wanted to avoid creating doubts about its strong dollar policy. If the US is concerned about rising US long-term yields and is therefore wary of dollar depreciation that could exacerbate the increase in yields, the limitations of Japan-US coordinated intervention also come into focus. As discussed in last week's *FX Pulse*, Japan-US coordinated intervention has traditionally been considered powerful because, unlike unilateral intervention by Japan, it would theoretically provide substantial amount of intervention capacity if the US were to participate by selling dollars. However, if the US is unable to sell dollars because it is deeply concerned that such action would be interpreted as signaling a weak-dollar policy, the range of feasible measures would be limited.

According to the "Treasury and Federal Reserve Foreign Exchange Operations: Quarterly Report," released by the Federal Reserve Bank of New York on 14 May, the euro accounted for nearly 70% of the foreign currency assets held in the US Exchange Stabilization Fund (ESF) as of 31 March 2026. The US Treasury held approximately $13.1bn in euros through the ESF, equivalent to roughly Y2.1tn (Chart 5).

The exact scale of the euro-selling and yen-buying transaction conducted by the US on 31 July has not been disclosed. However, it has become clear that Treasury Secretary Bessent had placed a note stating, "Buy Japanese Yen (JPY) $5-10 bil." Assuming that the note referred to a transaction involving the sale of euros and the purchase of yen, a simple calculation suggests that only approximately Y0.5-1.3tn in euro-denominated assets would remain in the ESF.

Bessent has stated that "We will not hesitate to participate in further joint intervention." However, if intervention continues to rely on selling euros to purchase yen, the amount of available assets will be limited. On the Japanese side, if the authorities refrain from selling US Treasuries in order to contain the impact on the US Treasury market and instead rely primarily on the Foreign and International Monetary Authorities Repo Facility (FIMA Repo Facility), the usable amount would be constrained to approximately $60bn (around Y9.5tn), the facility's current limit.

**Chart 5: Breakdown of Foreign Reserve Assets Held by US ESF ($ mn)**

| | U.S. Treasury Exchange Stabilization Fund (ESF)[a] |
|---|---|
| **Euro-denominated assets** | **13,130.9** |
| Cash held on deposit at official institutions | 5,736.4 |
| Marketable securities held under repurchase agreementsb | 0.0 |
| Marketable securities held outright | 7,394.5 |
| German government securities | 670.5 |
| French government securities | 6,232.3 |
| Dutch government securities | 491.7 |
| **Yen-denominated assets** | **5,919.4** |
| Cash held on deposit at official institutions | 3,007.5 |
| Marketable securities held outright | 2,911.9 |

*Source: Reprinted from New York Fed materials.*

Although a senior US government official has stated that all options remained on the table (including dollar-selling intervention), the need to maintain consistency with the US government's "strong-dollar policy" is likely to lead the market to conclude that the range of measures that can actually be deployed is not particularly broad. Indeed, the intervention may instead have demonstrated to the market that there are certain constraints on measures involving dollar sales or additional sales of US Treasuries. If the market begins to focus on the sustainability of coordinated intervention, its deterrent effect may gradually diminish, and the limits of coordinated intervention are likely to attract increasing attention.

## Japan's policy credibility will be tested beyond FX intervention

The latest intervention had a strong signaling effect in that it demonstrated a shared sense of concern among the Japanese and US authorities regarding the yen's depreciation. As Bessent observed in an interview with US television network CNBC on 4 August, intervention can send a signal to the market, but it is policy that changes the market's direction. In other words, forex intervention may serve as a means of buying time. However, a sustained reversal of the yen's depreciation will be difficult unless the fundamental causes of yen weakness are addressed: the Japan-US interest rate differential, Japan's low real interest rates, concerns about fiscal expansion, and a lack of confidence in the predictability of policy operations.

In the same interview, Bessent expressed the view that the Takaichi administration was moving toward fiscal discipline, including through its efforts to achieve a primary budget surplus. On the other hand, when asked whether BOJ rate hikes would be necessary to stabilize the yen, Bessent said that he did not intend to prejudge the matter. He nevertheless stated, "I have known Governor Kazuo Ueda for 15 years. I have great confidence in him. He is very market-savvy," and added, "But, you know, it is going to require a policy to follow up with the intervention. And I'm highly confident we're going to see that." These remarks suggest that, while the US is supporting Japan's FX intervention, it is also calling for consistency between Japan's monetary and fiscal policies. The message is that FX intervention alone cannot change the direction of the market, and that a sustained correction of yen weakness will require both BOJ policy normalization and government efforts to maintain fiscal discipline.

According to Professor Emeritus Masaya Sakuragawa of Keio University, central bank independence, consistent economic policies aimed at containing inflation, and a transparent foreign exchange policy are among the sources of a currency's "soft power." A decline in confidence in Japan's policy operations, or, put differently, reduced predictability regarding the future conduct of policy, may be contributing to downward pressure on the yen by widening the risk premium attached to the currency.

The market currently has doubts about the consistency of Japan's policy mix. Even as inflation remains elevated, the pace of BOJ rate hikes has been limited, leaving real interest rates deeply negative. Meanwhile, the government is formulating expansionary fiscal policies, including a consumption tax cut. From the standpoint of containing inflation and stabilizing the currency, this policy combination is likely to be perceived as lacking consistency.

The so-called "Basic Policy shock" also fueled speculation that the government was attempting to restrain the BOJ's rate-hike path, further undermining policy credibility. Market anxiety stems not merely from whether the BOJ will raise rates at any given meeting, but from the opacity surrounding the medium-to-long-term policy response functions of both the government and the central bank.

For the time being, caution regarding additional intervention is likely to limit the upside for USD/JPY. The latest Japan-US coordinated intervention was effective to some extent in demonstrating the authorities' strong concern about the yen's depreciation. However, unless the US undertakes dollar-selling intervention, there are limits to the sustainability of coordinated action. Whether the yen appreciates further will depend not on whether intervention takes place, but on whether market confidence in Japan's policies is restored. Factors behind the yen's depreciation include delays in BOJ policy normalization, concerns about fiscal expansion, and doubts about policy consistency between the government and the BOJ. Unless these issues are resolved, forex intervention will be unlikely to fundamentally change the direction of the market, although it may temporarily restrain yen depreciation.

Nevertheless, the Takaichi administration is unlikely to depart from its policy of "responsible and proactive fiscal policy." At a press conference following an extraordinary Cabinet meeting on 5 August, Finance Minister Satsuki Katayama was asked about reports that the US had conveyed concerns about the potential fiscal instability that could result from a consumption tax cut. Finance Minister Katayama responded that Bessent's recent remarks indicated that the US recognized that Japan was moving toward fiscal discipline. Katayama also stated that the US had cooperated in the FX intervention precisely because Japan was managing its policies appropriately.

The US administration appears to view the yen's depreciation as a problem and to be wary of disruption in Japanese markets, particularly the interest rate market, spilling over to the US. However, this does not necessarily mean that the US opposes Japan's proactive fiscal policy itself. Much of the more than Y370tn in planned public- and private-sector investment is intended not only to support the government's growth strategy, but also to address geopolitical priorities such as economic security, supply-chain restructuring, and reduced dependence on China. These objectives overlap with the policy priorities emphasized by the Trump administration, making it unlikely that US would make a blanket demand for Japan to curb spending or pursue fiscal austerity.

Accordingly, the market is unlikely to revise its expectations of an expansionary fiscal stance in the near term. As a policy factor supporting the yen, BOJ policy normalization will therefore effectively have to play the central role. Restoring market confidence in Japan's policy operations is likely to take time. Although the latest coordinated intervention achieved a certain degree of success in arresting the rapid depreciation of the yen, sustaining a correction in yen weakness will require Japan to continue demonstrating a consistent approach to both monetary and fiscal policies.

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