

FX Pulse

Summary of key issues regarding forex intervention

- Will the BOJ raise interest rates?
- Securing resources for consumption tax cut as underlying motive?

Kenta Tadaide

81-3-5555-8466
kenta.tadaide@daiwa.co.jp



Asuka Ichikawa

81-3-5555-8761
asuka.ichikawa@daiwa.co.jp



Daiwa Securities Co. Ltd.

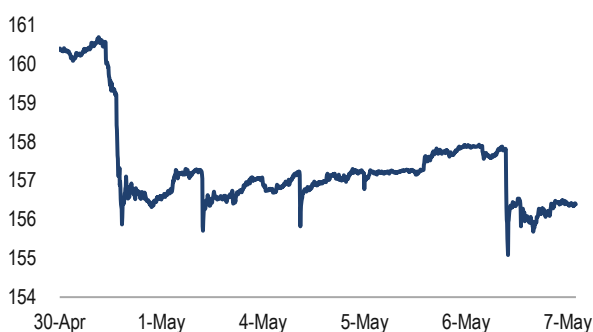
Was there yen-buying intervention on the scale of Y10tn?

Over the past two weeks, as the SOX Index continued its surge in the US stock market and expectations grew for progress in US-Iran talks, the forex market saw a notable rise in high-yielding and resource-rich country currencies. Regarding the yen exchange rates, attention has focused on foreign exchange intervention by Japanese currency authorities. As has already been reported, it is possible that yen-buying interventions totaling Y10tn—Y5tn on 30 April and another Y5tn during 1-6 May—were conducted during the Golden Week holidays (Chart 1).

If the government and the BOJ did indeed intervene on 30 April, the settlement would occur two business days later, on 7 May. It is possible to estimate the intervention amount using data from the BOJ and money market brokers. Based on a trial calculation using the BOJ's published projections for changes in its current account balances, the amount of yen-buying intervention is estimated to have been on the scale of Y5tn (Chart 2). Similarly, the estimated intervention amount for the 1-6 May period was also on the scale of Y5tn.

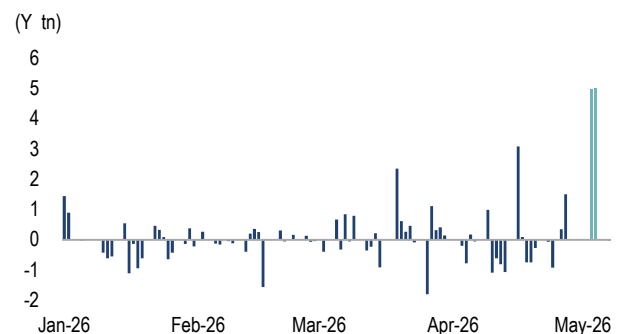
The BOJ's projection for "Treasury funds and others" affecting the current account balances on 7 May was a net receipt of Y9.48tn, which exceeded the estimate of Y4.5tn net receipt published at the beginning of the month. The difference of around Y4.98tn is presumed to be the scale of the yen-buying intervention. Furthermore, the projection for "Treasury funds and others" on 8 May was a net receipt of Y4.51tn, while the initial estimate was a net payment of Y0.5tn, resulting in a difference of Y5.01tn.

Chart 1: USD/JPY Trend (starting at 6:00 a.m. JST)



Source: Bloomberg; compiled by Daiwa.

Chart 2: Difference Between Actual Figures and Beginning-of-Month Projections for Changes in "Treasury Funds and Others" in Current Account Balances at BOJ



Source: BOJ, Ueda Yagi Tanshi; compiled by Daiwa.

Between 1 May and 6, price movements suggestive of intervention were observed on the 1st, 4th, and 6th. While it cannot be definitively stated, as projections for “Treasury funds and others” can fluctuate by several hundred billion yen—and on rare occasions by over Y1tn or even Y2tn—the probability of intervention is reasonably high, given the magnitude of these price swings and the rule of thumb that Y1tn in intervention has an impact of about Y1 on the USD/JPY rate.

The actual amount of intervention conducted by the currency authorities between 28 April and 27 May will be confirmed at the end of May (scheduled for release at 7:00 p.m. on 29 May), but we must wait until early August for daily figures.

How was the funding for intervention secured, and how much intervention capacity remains?

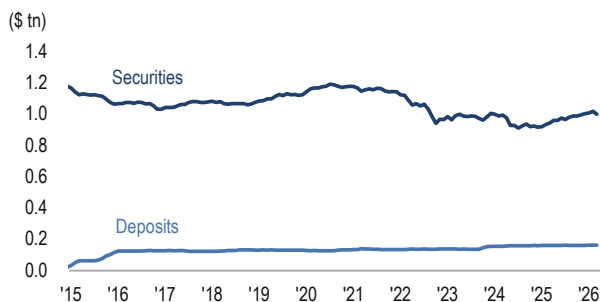
Looking at the latest “International Reserves/Foreign Currency Liquidity” data published by the MOF, Japan’s foreign reserves stood at \$1.3747tn (around Y218tn) as of end-March. By component, securities amounted to \$1.0001tn (around Y159tn), while deposits amounted to \$161.7bn (around Y26tn) (Chart 3). The four interventions conducted in 2022 and 2024 appear to have been funded through sales and redemptions of securities holdings, without drawing down foreign currency deposits at all. The focus this time will be whether securities were sold again, or whether deposits were drawn down. If deposits were drawn down, the remaining capacity for intervention could become a market topic. For now, attention will be on the “International Reserves/Foreign Currency Liquidity” data as of end-April, scheduled for release on 12 May.

IMF criteria

On 4 May, it was reported that officials accompanying Finance Minister Satsuki Katayama to an international conference referred to the International Monetary Fund’s (IMF) criteria for foreign exchange intervention: “no more than three times within six months” and “each intervention lasting no more than three business days.” These IMF criteria have often become a topic of discussion in the forex market whenever intervention has taken place in recent years. However, as Vice Finance Minister for International Affairs Atsushi Mimura also stated on 7 May, they are “merely classification criteria for each country’s exchange rate regime, and are not considered rules that restrict the number of interventions.” In other words, they are criteria for being classified as having a “free floating” exchange rate regime under the IMF’s exchange rate regime classification.

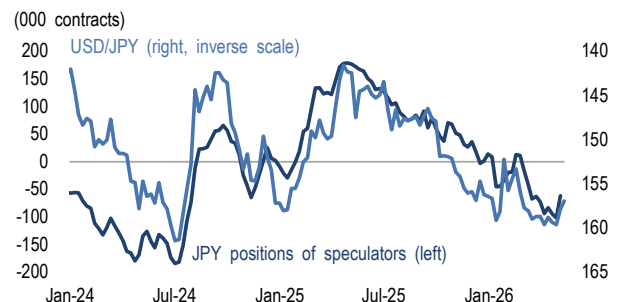
If the latest intervention was conducted four times—on 30 April, 1 May, 4 May, and 6 May—then under these criteria it would count as two interventions, meaning that one further intervention would be permitted within six months. That said, even if this rule were breached, there would be no penalty, nor would foreign exchange intervention be constrained. If intervention were conducted beyond these criteria, Japan’s classification could merely be changed from “free floating” to “floating.” For reference, among G10 currencies, the New Zealand dollar (NZD) and Swiss franc (CHF) are classified as “floating.”

Chart 3: Foreign Reserves (as of end-Mar 2026)



Source: MOF; compiled by Daiwa.

Chart 4: JPY/USD Rate, JPY Positions of Speculators



Source: CFTC, Bloomberg; compiled by Daiwa.

Hard to justify as response to “excessive volatility” or “disorderly movements”

Among major countries, the basic principle is that “exchange rates are determined in the market.” Foreign exchange intervention is, in principle, not permitted, but is exceptionally allowed as a response to “excessive volatility or disorderly movements” in exchange rates. In the 2022 and 2024 interventions, the authorities made clear—at least officially—that they were “not targeting any specific exchange rate level, but were responding strictly to rapid fluctuations or disorderly movements caused by speculation and other factors” (former Vice Finance Minister for International Affairs Masato Kanda).

Given the preceding verbal interventions, we can probably regard the recent intervention as a response to “speculative” yen weakness. The term “speculative” typically brings to mind “excessive volatility or disorderly movements in exchanges rates,” but since mid-March, the USD/JPY rate has been trading mostly within the Y158-160 range, which is hard to describe as “rapid fluctuation or disorderly movements.” Of course, there was likely an aspect in which the yen exchange rates remained stable due to the effect of verbal intervention, but even looking at the IMM currency futures positions, speculative (non-commercial) yen short positions, while on an upward trend, were only about half the size seen at the time of the 2024 intervention (Chart 4).

The rate check on 23 January was also conducted when USD/JPY was in the 159 level. This time, the authorities’ response appears to have come at a timing that may inevitably be interpreted as intervention aimed at firmly preventing the entrenchment of a “specific exchange rate level,” namely Y160. Moreover, if intervention was also conducted during 1-6 May, the “intervention line” may appear to have been lowered from Y160 to Y157. It was reported that Vice Finance Minister for International Affairs Mimura declined to comment on market views that the intervention line had been lowered to around Y157. However, the government may be strongly warning the market by treating Y160 as the final line of defense while positioning Y157 as a warning line.

Will there be a rate hike?

Based on the foreign exchange interventions conducted in 2022 and 2024, there is a possibility that the BOJ could move to raise rates in step with the MOF’s decision to conduct intervention. In this regard, the movements of US Treasury Secretary Scott Bessent, who is visiting Japan, warrant attention. Treasury Secretary Bessent is scheduled to visit Japan for three days from 11 May and to hold separate meetings on 12 May with Prime Minister Sanae Takaichi, Finance Minister Katayama, and BOJ Governor Kazuo Ueda.

Regarding the latest foreign exchange intervention, the US Treasury Department has indicated a stance of tolerating the intervention, stating that it is “in close communication with Japan.” However, the US side has consistently emphasized monetary policy normalization as a means of correcting yen weakness. This time as well, in the context of exchange rate stability, Treasury Secretary Bessent may refer to the BOJ’s scope for rate hikes.

Securing resources for consumption tax cut as underlying motive?

The recent series of forex interventions failed to push the exchange rate down to the Y155 level or lower. Given that the yen had appreciated to nearly Y152 after the joint rate check with the US in January, there is no denying that the current level is somewhat underwhelming. Generally speaking, forex intervention lacks the power to significantly reverse market trends and tends to merely serve as a temporary measure to buy time. Yen depreciation since mid-March has been driven by persistently high crude oil prices amid the Middle East turmoil. That trend is in line with economic fundamentals. Under these circumstances, the effectiveness of forex intervention is likely to be limited. MOF is surely aware of that fact.

So why was a decision made to intervene in the forex market? This may be a somewhat cynical view, but one point that must be considered is how to best secure the resources for a consumption tax cut. As political parties vied to propose consumption tax cuts during the Lower House election, attention turned to the Foreign Exchange Fund Special Account (FEFSA) as a

potential funding source. However, many believed that there were significant hurdles in terms of utilizing such funding sources.

The annual surplus (as reflected in the final accounts), which represents the difference between revenue from interest income on foreign currency assets and expenditures such as interest payments on Financing Bills, has historically been transferred to the general account at a level of roughly 70%. In FY24, out of the Y5.3603tn surplus, Y3.2007tn was transferred to the general account for FY25. Even though it is technically possible to allocate the full amount, the additional funds came to only about Y1.0tn.

Reducing the consumption tax rate on food to zero for two years would require approximately Y10tn in funding. As such, in order to cover this amount using FEFSAs, not only surplus but also exchange valuation gains (unrealized gains) must be utilized. The difference between the assets (Y191.4tn) and liabilities (Y110.7tn) of FEFSAs as of the end of FY24 came to Y80.7tn, of which Y50.3tn was attributable to foreign exchange translation gains and losses (unrealized gains).

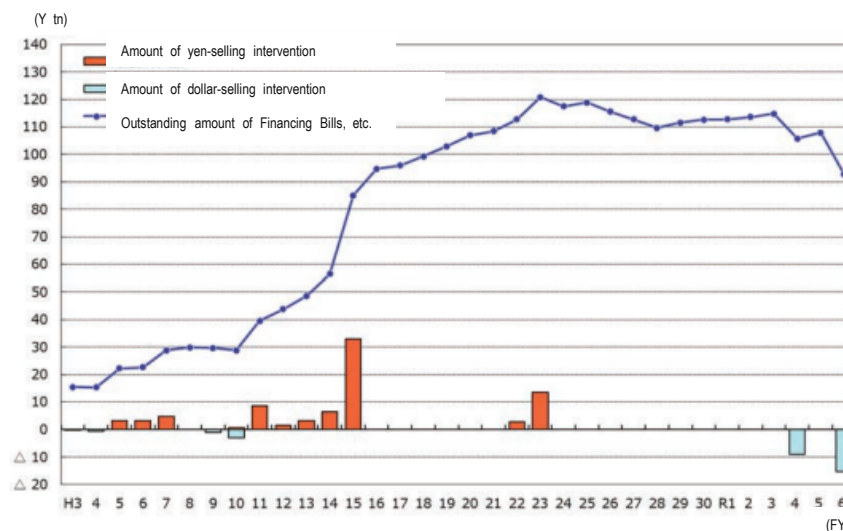
In order to use FEFSAs as a source for funding a consumption tax cut, there is a need to realize these unrealized gains. This means selling assets such as US Treasury bonds and converting the resulting foreign currency into yen. This amounts to de facto forex intervention. There was widespread skepticism among government officials, former finance officials, and market participants regarding the use of the FEFSAs. However, the latest forex intervention may have cleared that hurdle.

How FEFSAs work (fund flows during forex intervention)

First, we need to review how FEFSAs work. When the government intervenes in the forex market by selling yen and buying foreign currency, it generates yen by issuing Financing Bills, sells the yen on the forex market, and purchases foreign currencies. Conversely, in the case of yen-buying and foreign currency-selling intervention, foreign currency is raised, for example, by selling foreign currency-denominated bonds, which are then sold on the forex market to purchase yen. That yen will then be used to redeem Financing Bills.

Chart 5 shows the outstanding balance of Financing Bills and the amount of forex intervention since FY91, for which intervention figures have been disclosed. We can see that the Financing Bill balance increased alongside yen-selling and foreign currency-buying interventions through FY11 and has since decreased (through redemptions) alongside yen-buying and foreign currency-selling interventions in FY22 and FY24.

Chart 5: Outstanding Balance of Financing Bills, Amount of Forex Intervention



Source: Reprinted from MOF materials.
 Note: Outstanding amount of Financing Bills include Treasury surplus transfer fund.

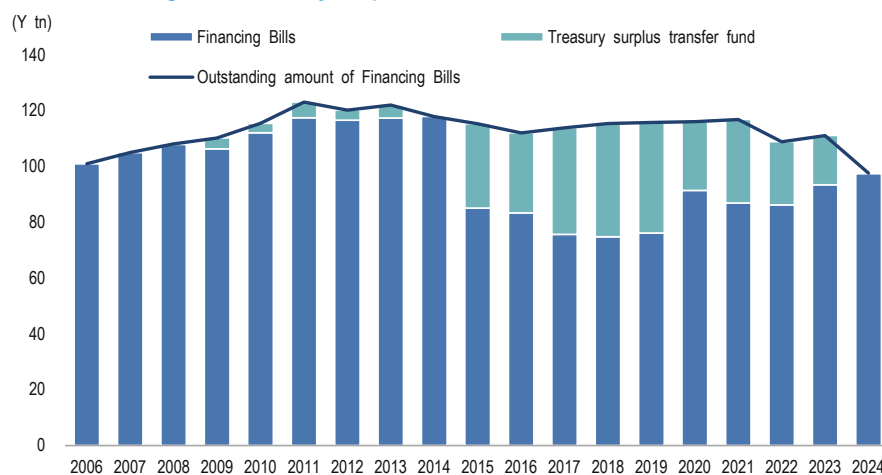
How the FEFSA works (fund flows during forex intervention)

In order to use the FEFSA as a source of funding for the consumption tax cut (author cannot say for sure because he has yet to form a more complete understanding), it will likely be necessary to amend the law so that the yen obtained through this round of forex intervention is not used to redeem Financing Bills. In that case, while attention is focused on trends regarding the issuance of Financing Bills, the situation is not quite that simple. While FEFSA generally holds Financing Bills as liabilities, it could also be provided with funds from the Treasury's surplus reserves¹ depending on the circumstances.

The Treasury surplus transfer fund is included in the Financing Bill balance as shown in Chart 5. Meanwhile, Chart 6 breaks down the data into Financing Bills and Treasury surplus transfer fund. Here, we can see that during the forex interventions in 2022 and 2024, it was the Treasury surplus transfer fund balance, rather than Financing Bills, that decreased. As of the end of 2025, the Treasury surplus transfer fund balance stood at Y100bn. Assuming there are no further fluctuations, the balance should decrease provided that yen obtained through this forex intervention is used to redeem Financing Bills.

However, since financial information regarding FEFSA's financial results is not disclosed until the fiscal year ends, we will not know for the time being whether the Financing Bills have been redeemed. Also, the total issuance of Financing Bills in FY24 came to Y487tn and it seems difficult to infer the redemption status of Financing Bills held by FEFSA from the daily issuance figures.

Chart 6: Financing Bills, Treasury Surplus Transfer Fund



Source: MOF; compiled by Daiwa.

Ultimately, it seems that we will have to wait and see how the issue of whether to use FEFSA to fund the consumption tax cut is discussed at the National Council on Social Security. Prime Minister Sanae Takaichi cited a major overhaul of special tax measures and subsidies, as well as non-tax revenue, as means for securing funds. If the yen funds obtained through this round of forex intervention are to be earmarked for financing a consumption tax cut, it is possible that a major hurdle toward making that happen has been cleared. In that case, while issues remain (such as risk that temporary reduction in consumption tax rate on food items, currently limited to two years, could become permanent tax cut), this could help alleviate the upward pressure on JGB yields and depreciation pressure on the yen, both caused in part by concerns about Japan's finances.

¹ According to the MOF, "The transfer of surplus funds from the Treasury refers to the practice of temporarily providing interest-free loans to special accounts and other entities facing cash shortages when a surplus exists within the Treasury overall (in order to reduce interest expenses for the Treasury overall)."

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