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FX Pulse

Coordinated intervention

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Intervention on consecutive days

The Japanese and US governments conducted coordinated yen-buying intervention in the forex market on 31 July. This marked the first coordinated intervention since the Group of Seven (G7) countries intervened following the Great East Japan Earthquake in 2011, 15 years ago, and the first coordinated yen-buying intervention by Japan and the US since the Asian currency crisis in 1998, 28 years ago. On 30 July, US Treasury Secretary Scott Bessent told FOX Business that the yen "seems very undervalued to me." On 31 July, Vice Minister of Finance for International Affairs Atsushi Mimura said, "We are receiving support from the US authorities that goes beyond mere moral support," suggesting further involvement by the US side.

On 31 July, a US official said that the US Treasury, through the Federal Reserve Bank of New York, had informed a number of banks that it might intervene in the Japanese yen market that day and that they should stand ready for future action. According to various media reports, the Japanese government and the BOJ conducted yen-buying intervention in the early morning and afternoon, US Eastern Time. Subsequently, the New York Fed, acting on behalf of the US Treasury, apparently sold euros and bought yen, after which the Japanese government and the BOJ once again sold dollars and bought yen.

When Treasury Secretary Bessent attended a cabinet meeting on 31 July, a notepad was reportedly visible on his desk bearing the underlined words "To Do" and, written below them, "Buy Japanese Yen (JPY) $5-10 bil." The *Financial Times* also reported, citing three people familiar with the matter, that the New York Fed undertook the unusual move of conducting a sale of euros to buy yen through Goldman Sachs and Morgan Stanley.

Will the authorities intervene for a third consecutive business day?

The semi-coordinated intervention on 30 July, which consisted of forex intervention by the Japanese government and the BOJ and a rate check by the New York Fed, halted the decline in the USD/JPY rate at its 200-day moving average. However, the coordinated intervention on 31 July subsequently pushed the USD/JPY rate down to the low-Y157 range. Although the authorities managed to drive the currency pair below its 200-day moving average through coordinated intervention, they may now seek to push it below Y155, a level that the intervention conducted during the Golden Week holidays failed to break, and thereby breach another important technical threshold.

Market vigilance regarding possible additional intervention at the start of the week is increasing. This reflects market awareness of the IMF's classification criteria for a free-floating exchange rate arrangement, which allow for up to three instances of intervention over a six-month period, with each instance lasting no more than three business days. However, as Vice Minister Mimura said at the time of the Golden Week intervention, the IMF criteria "merely constitute criteria for classifying countries' exchange rate arrangements, and I do not regard them as rules restricting the number of interventions." Even if these criteria were breached, there would be no penalty, nor would foreign exchange intervention be constrained. The authorities therefore do not appear to be acting with these criteria specifically in mind. Nevertheless, as discussed above, it is entirely conceivable that they will seek to maximize the announcement effect of coordinated intervention and correct the yen's depreciation further. Finance Minister Satsuki Katayama is reportedly planning to explain the series of measures intended to correct the yen's depreciation, including foreign exchange intervention, on the morning of 3 August. Japan and the US are also reportedly coordinating the issuance of a joint statement.

Why was the euro used?

If the *Financial Times* report is accurate, the US side intervened by selling euros and buying yen, rather than by selling dollars. Why did it sell euros instead of its own currency, the US dollar? Euro-selling intervention would suggest that some form of prior coordination with the ECB and the European authorities was likely to have taken place. In the author's view, the euro may have been deliberately selected not because dollar-selling intervention was technically difficult, but because the US authorities wanted to avoid sending a message to the market that they were shifting toward a weaker-dollar policy.

Treasury Secretary Bessent's support for Japan appears to reflect concern that turmoil in Japanese markets could spill over into global financial markets and ultimately have an adverse impact on the US Treasury market. In this regard, comments made by US officials at the time of the coordinated Japan-US rate check in January may offer some clues as to how the latest euro-selling intervention should be interpreted.

After the coordinated Japan-US rate check in January, the US dollar remained under pressure. On 27 January, when asked whether he was concerned that the dollar had fallen to its lowest level in approximately four years, US President Donald Trump replied, "No, I think it's great." As the dollar's depreciation subsequently accelerated, Treasury Secretary Bessent appeared to counter the President's comments the following day. On 28 January, he categorically denied that the US had sold dollars and bought yen in the foreign exchange market, saying, "Absolutely not." Asked about the possibility of future intervention, he said, "We don't comment other than to say we have a strong dollar policy." These remarks suggest that Treasury Secretary Bessent was cautious about sending signals to the market that could be interpreted as an attempt to "guide the dollar lower."

If the dollar were to depreciate rapidly, discussion of "de-dollarization" could re-emerge, potentially raising concerns about foreign investors' confidence in US assets and demand for US Treasuries. If this were to place upward pressure on US long-term yields, the US authorities would inevitably need to exercise caution regarding dollar-selling intervention. The temporary "triple decline" in US equities, bonds, and the dollar after the July FOMC meeting, amid growing concern that the Fed was behind the curve, may also have had a material influence on the US authorities' judgment.

Shortly after 2:00 a.m. on 1 August, Japan's Ministry of Finance posted the following message in English and Japanese on X, formerly Twitter:
"Japan's monetary authorities have a broad range of tools available to address market liquidity needs. These include potential access, as appropriate, to the Federal Reserve's standing Foreign and International Monetary Authorities (FIMA) Repo Facility, which can provide temporary U.S. dollar liquidity against U.S. Treasury securities. We stand ready to use available tools, as appropriate, to support orderly market functioning."

Many market participants interpreted the post as an attempt to dispel concerns about Japan's capacity to intervene by emphasizing that it could obtain US dollar funding without selling its holdings of US Treasuries. Viewed from another perspective, however, the post could also be interpreted as a message from both Japan and the US that they wished to avoid selling US Treasuries to the greatest extent possible.

Based on the above reasoning, even coordinated intervention, which is regarded as an extremely powerful measure, may be subject to certain constraints. Unlike unilateral intervention by Japan, cooperation from the US would have a significant deterrent effect on speculative market participants. In theory, just as Japan has an almost unlimited capacity to conduct yen-selling intervention, the US Treasury and the New York Fed would also have considerable capacity to conduct dollar-selling intervention. However, if the US side is highly concerned that such action could be perceived as a weaker-dollar policy, the range of realistically viable options would be limited. If the latest euro-selling intervention did in fact take place, it may suggest that the US is willing to support a stronger yen while seeking to avoid creating the impression that it is attempting to engineer a weaker dollar.

BOJ could raise rates at its September meeting

Foreign exchange intervention remains no more than a means of buying time and a stopgap measure. This remains true even in the case of coordinated intervention, and it is not easy to reverse the yen's depreciation trend through intervention alone. To sustain the effect of forex intervention, consistency with monetary policy is essential. While the market has already priced in a considerable probability of a rate hike by October, this series of events could provide scope for expectations of a September rate hike to increase.

On 31 July, Treasury Secretary Bessent posted on X (formerly Twitter) that "I look forward to seeing my longtime friend, Bank of Japan Governor Kazuo Ueda, … at the end of August." Bessent has long been thought to view the BOJ's delay in raising interest rates as one of the factors behind the yen's weakness, and it is highly likely that the US side expects the BOJ to proceed with further normalization.

At its Monetary Policy Meeting held on 30 and 31 July, the BOJ decided to maintain its policy interest rate at 1.0%. In its concurrently released *Outlook for Economic Activity and Prices* report, the BOJ added an explicit reference in its discussion of monetary policy conduct to "a risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent." It also added the expansion of AI-related demand and future developments in foreign exchange rates to the factors requiring close attention when determining the timing and pace of policy adjustments. When asked at his press conference whether the pace of rate hikes could accelerate, Governor Ueda referred to the increasing upside risks to prices and stated, "We will discuss the matter thoroughly at future policy Monetary Policy Meetings," leaving open the possibility of taking action as early as the next meeting in September.

If the BOJ adopts a more hawkish stance ahead of the September meeting, the combination of tighter monetary policy expectations and the effects of intervention could intensify downward pressure on the USD/JPY rate. Conversely, if the intervention does not receive sufficient support from monetary policy, its effects are likely to fade gradually.

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