4th August 2026

Could the Yen turn into a haven currency again?[1]

Last week was the first and only time since 17th June 1998 that the US Treasury helped strengthen the Yen[2] (apart from the 1985 Plaza Accord[3]). Back in 1998 after the Asian Tiger Crisis, the Yen then strengthened by around 30% over a period of 15 months[4]. This time, I believe, is different, as long as the Iran conflict continues…

Why did the US Treasury help Japan?

Japan's US Treasury holdings generally range between $1-1.3trn[5], of which the Japanese Ministry of Finance (MoF) owned likely between US$650-800bn – i.e. a significant holder (although no such figure is public, but feels reasonable given GPIF's ~$232bn UST holdings[6]). In total, the Japanese Ministry of Finance held around US$930bn worth of foreign securities as of end of May/June 2026 ($1.3trn total reserves)[7], and $1trn as of end of April[8]. During April-May, the BoJ intervened in the currency markets by selling the equivalent of Y11.7trn (US$73bn)[9] in USTs to defend the Yen. Between April-May when the MoF sold USTs, UST 5yr, 10yr and 30yr yields shot up by 40-50bps[10]. There was no FX intervention by the MoF between June and 28th July[11] – but this changed on 29th July, and in just three days, 10yr UST yields spiked by 10bps and 30yr UST yields by 20bps – just when it was suspected that Japan sold up to $59bn in USTs to prop up the Yen[12]. Yes, there was an oil spike in mid-May, and a Fed meeting at the end of July. However, selling

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[1] all assumptions and observations are based on internal modelling and data analysis
[2] https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/1998/fxq298.pdf
[3] https://en.wikipedia.org/wiki/Plaza_Accord
[4] https://www.investing.com/currencies/usd-jpy-historical-data
[5] https://tradingeconomics.com/united-states/foreign-treasury-holdings-japan
[6] https://www.reuters.com/world/asia-pacific/japans-gpif-holds-about-931-billion-foreign-assets-2026-07-10/
[7] https://www.mof.go.jp/english/policy/international_policy/reference/official_reserve_assets/e0805.html, https://www.mof.go.jp/english/policy/international_policy/reference/official_reserve_assets/e0806.html
[8] https://www.mof.go.jp/english/policy/international_policy/reference/official_reserve_assets/e0804.html
[9] https://www.mof.go.jp/english/policy/international_policy/reference/feio/monthly/20260529e.html
[10] https://fred.stlouisfed.org/series/DGS5. https://fred.stlouisfed.org/series/DGS10, https://fred.stlouisfed.org/series/DGS30
[11] https://www.mof.go.jp/english/policy/international_policy/reference/feio/monthly/20260630e.html, https://www.mof.go.jp/english/policy/international_policy/reference/feio/monthly/20260731e.html
[12] https://finance.yahoo.com/markets/currencies/articles/japan-may-sold-58-97-101716079.html

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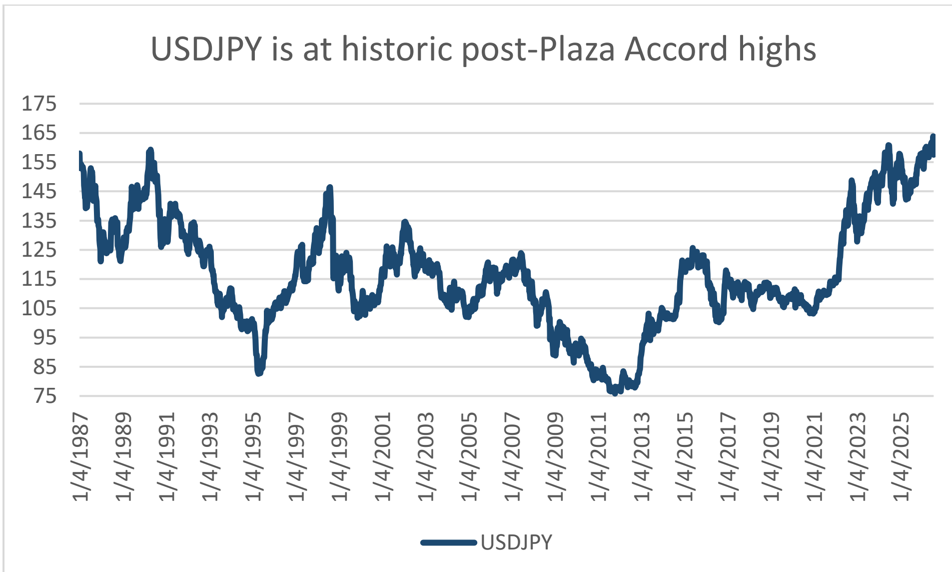
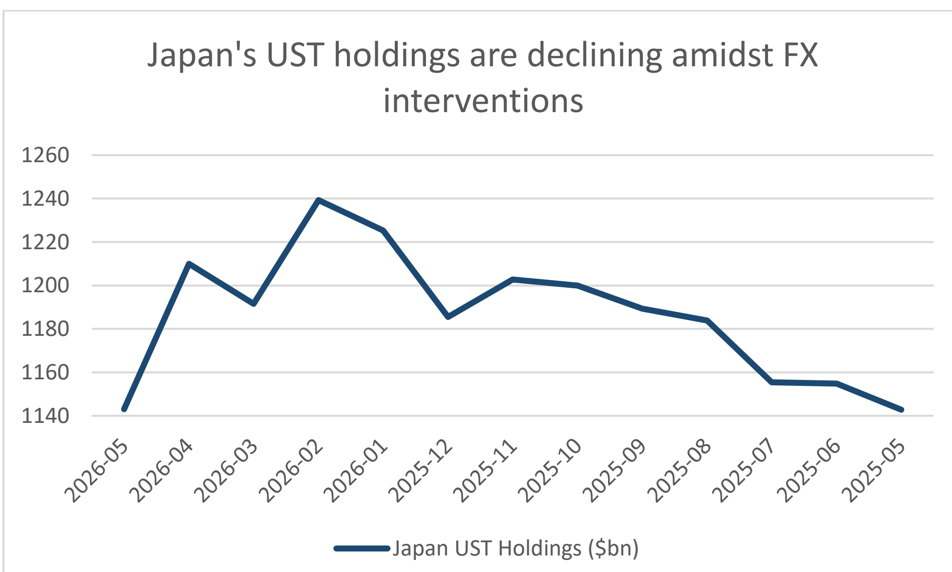
USTs into a weakening market can amplify these moves, and is hence highly undesirable for the US Treasury. And this is exactly why the US Treasury helped intervening by selling USD or EUR and buying JPY over the last few days. This is not about helping Japan, but more so about avoiding a UST selloff, in my view.



Source: Investing.com



Source: http://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html

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The debt sustainability question

The headline figures for Japan appear very poor with around 200% of government debt/GDP[13], which compares with around 98% of US government debt/GDP (removing intergovernmental lending)[14]. However, the average interest cost for Japan's government debt is only 0.97% (11% of government expenditures)[15], compared to 3.31% in the US (14% of government expenditures)[16]. One reason why Japan is continuing to function despite the high debt burden is due the BOJ's equity-index holdings, which have soared in value in recent years. This enabled the BOJ to continue to post a profit and have positive equity on the balance sheet, enabling a continuation of remittances of interest earned from its Japanese government debt holdings back to the government. This is different to the FED, which since 2022 has negative equity (only a change in accounting averted the negative equity[17]) on the balance sheet due to interest expense on reserves and reverse repo exceeding the interest earned on US government bonds (no offsetting equity gains), disabling any interest payments from its balance sheet to the US government. The BOJ owns around 39% of outstanding JGBs[18], compared to the Fed's 14.3% of UST holdings[19]. This means that on nearly 40% of JGBs, the Japanese government is effectively paying no interest, as it receives the paid interest back by the BOJ each year – for as long as there are no losses incurred.

Despite high debt/GDP, the profits from the BOJ's equity portfolio helped offset some of the bond losses

Country	Government debt/GDP	Average interest cost on debt	CB owned
Japan	200%	0.97%	39%
US	98%	3.31%	14.3%

Source: FRED St Louis, Treasury.gov, MOF.go.jp, boj.or.jp

[13] https://www.mof.go.jp/english/policy/jgbs/reference/gbb/e202603.html, https://fred.stlouisfed.org/series/JPNNGDP
[14] https://fred.stlouisfed.org/series/GDP, https://fiscal.treasury.gov/accounting/us-financial-report/where-we-are-now, https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/
[15] https://www.mof.go.jp/english/policy/budget/budget/fy2026/02.pdf
[16] https://fiscaldata.treasury.gov/interest-expense-avg-interest-rates/, https://fiscaldata.treasury.gov/americas-finance-guide/national-deficit/
[17] https://www.omfif.org/2026/05/the-feds-deferred-asset-an-anomaly-that-explains-everything-2/
[18] https://www.boj.or.jp/en/statistics/boj/other/acmai/release/2026/ac260731.htm
[19] https://fred.stlouisfed.org/series/TREAST

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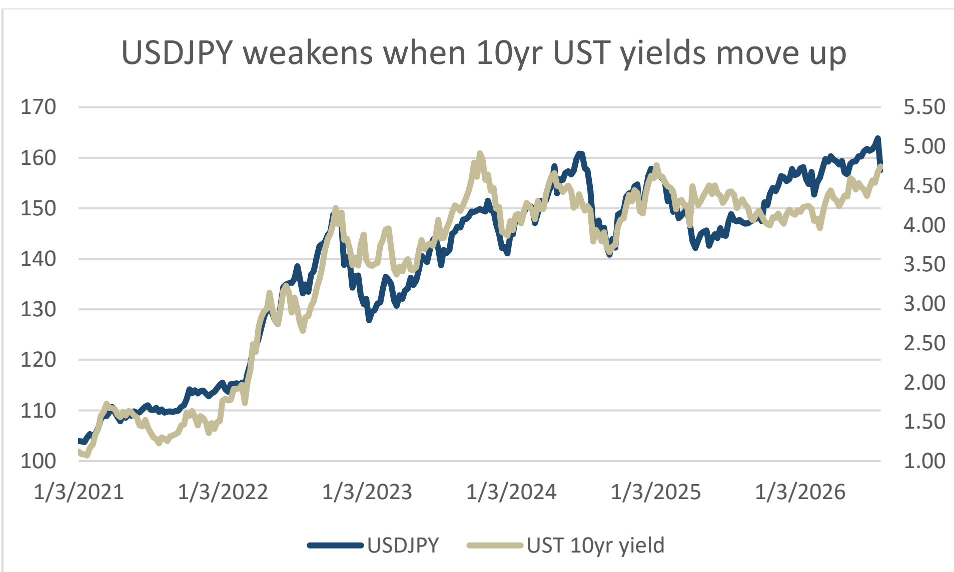
The Yen's correlation to 10yr UST yields

Whilst an intervention to strengthen the Japanese Yen by the US Treasury should in theory be a very strong signal for the Yen to continue to strengthen, there is also a very strong correlation between USDJPY and the 10yr UST yield in recent years, as per below chart. In other words, unless the correlation breaks down, which appears unlikely at the moment, USDJPY can only significantly and sustainably strengthen, if and when UST 10yr yields fall significantly. Especially since September 2025, the Yen weakened vs the USD in lockstep with 10yr UST yields increasing. To some degree there was room for the Yen to strengthen. However, this appreciation is limited, especially if 10yr UST yields were to rise further. In the end, the whole equation depends on the outcome of the Iran conflict, which Iran knows very well. Therefore, I continue to believe that Iran will hold the US hostage and continue to attack ships in the Hormuz Strait or Bab El-Mandeb Strait. The 1998 USDJPY intervention by the US Treasury was different: The correlation between USDJPY and 10yr UST yields broke down, or simply wasn't there, as per chart below. In H2 1999, the Yen strengthened further amidst a recovery in the Japanese economy from the Southeast Asia Tiger crisis and a hawkish BOJ[20]. Therefore, I do not believe the Yen can turn into a haven currency so quickly again despite being massively undervalued as a currency based on PPP[21].



Source: Investing.com

[20] https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/1999/fx99_q3.pdf
[21] https://data.worldbank.org/indicator/PA.NUS.PPP?locations=JP&most_recent_value_desc=true

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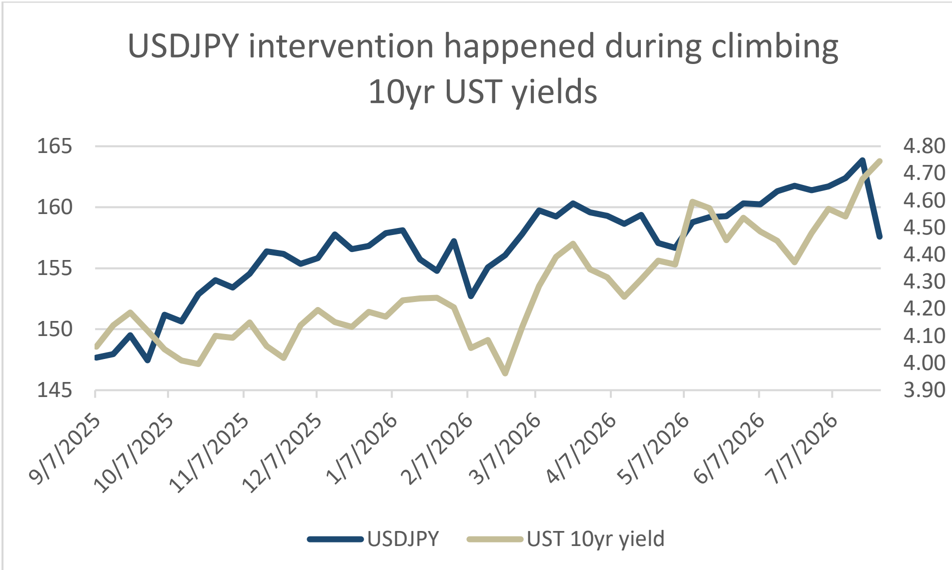
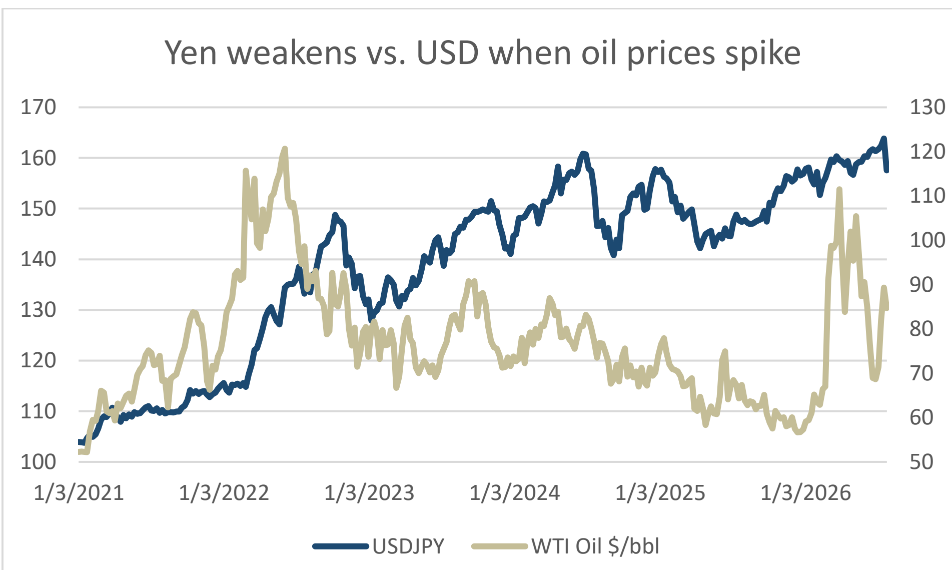


Source: Investing.com



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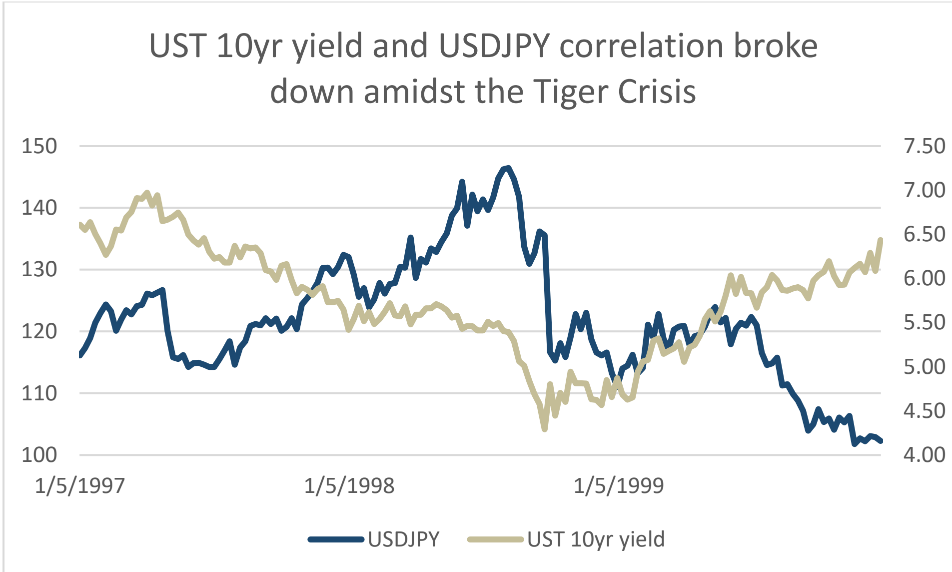

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