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ABSTRACT

The coordinated intervention by Japan and the United States in late July 2026 to put a halt to JPY depreciation when it touched 163.85 had no recent precedent. Though the central bank intervention was largely expected, this coordinated intervention has given a strong signal of support to the Japanese Yen. The Japanese Yen, as a favoured carry-trade currency, is always in demand from an investment perspective, as investors can borrow in yen at a lower cost and invest in other currencies for a higher return. So, any increase in interest rates by the BoJ prompts investors to rapidly unwind their carry-trade positions, resulting in rapid appreciation of the Yen. This could be one of the intervention strategies the BoJ follows. However, despite the BoJ's recent interest rate hikes due to inflationary pressure and other macroeconomic indicators, Yen appreciation following the unwinding of the carry trade did not last long. Instead, the Yen has depreciated continuously, posing a threat to the Japanese economy. In response, Japan's Ministry of Finance and the US Treasury carried out a coordinated YEN-buying and USD-selling intervention, the first joint US–Japan operation of its kind since 1998. In this paper, we explore a few relevant concepts: 1) The dynamics of unilateral and coordinated intervention 2) The reasons of the 2026 intervention in the context of hike of recent interest rate, 3) use of FIMA Repo Facility by Japan and 4) the market reaction by a few major participants, for example Rabobank, MUFG/BTMU, Brown Brothers Harriman (BBH), and UOB Group. We conclude that though the joint intervention has contributed to the market participants, Japan may need to change its monetary stance for a prolonged impact on its currency movement.

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1. Introduction: Operational flow of Intervention

Currency intervention is a common tool in developing countries and is often used by the central bank or monetary authority to manage short-run currency volatility in the market. It mostly happens when the local currency depreciates significantly against a foreign currency. Local currency depreciation significantly affects the country's importers by making imports costlier. Additionally, if the country depends heavily on imports for its fuel needs, local currency depreciation may lead to a very large trade deficit. In this situation, the country's central bank, or monetary authority, deliberately sells dollars in the market and buys the local currency for spot date settlement. As the supply of dollars increases on the spot value date, the local currency demand increases. However, this creates a shortage of domestic liquidity in the market. To manage domestic liquidity on spot value dates, the central bank engages in a buy/sell forex swap in USD for spot over forward (it could be 3 months, 6 months, one year, or beyond one year), which in turn increases the forward premium.

However, most developed countries follow market-determined exchange rates, and central bank intervention is very rare. A key reason is that when a currency is highly liquid and fully convertible, market traders may react adversely to interventions by a country's monetary authorities. As a result, the intervention becomes ineffective. In a nutshell, currency intervention is comparatively rare among advanced economies because unilateral action is often ineffective and coordinated action is diplomatically costly. For instance, during the last depreciation of the Japanese yen in July 2026, when it reached a historic low, the unilateral sale of dollars by Japan's monetary authority to halt the decline of the USD/JPY exchange rate could have adversely affected Japan's holdings of US Treasury assets. On one hand, Japan avoided an open-market sale of US Treasury assets and used the Foreign and International Monetary Authorities (FIMA) Repo facility to access USD to intervene; on the other hand, as part of the bilateral intervention, the US used the Euro to support the Yen.

Bank of Japan (BoJ) data estimated that Tokyo carried out a significant foreign exchange intervention on July 30, 2026, by purchasing almost ¥8.5 trillion and selling an estimated $59 billion worth of dollars. This was considered one of the largest currency support operations in Japan's history[1]. Early Monday (3rd August, 2026), after the official announcement of the intervention, the dollar dropped about 1% to 156.34 yen. This was a big change for the USD/JPY exchange rate (NPR, 3rd August, 2026).

These coordinated interventions are significant for two reasons: first, since 1998, this was the first joint US–Japan intervention, and second, it was triggered by prolonged yen weakness driven by wide interest-rate differentials, rising energy import costs, and fiscal concerns in Japan. In this context, this paper asks five questions. First, why did the yen weaken, and what is the history of BoJ intervention to protect the Yen? Second, what

[1] https://www.economies.com/forex/usd-jpy-news/yen-extends-rally-as-coordinated-intervention-by-japan-and-the-us-boosts-the-currency-49405.

actually happened in the market and in policy terms between July 30 and August 4, 2026? Third, how did the FIMA repo facility particularly underpin the credibility of further action? Fourth, what was the relevant market reaction? Fifth, we conclude our study by reflecting on the move's durability.

2. Why the Yen Weakened: A Brief on Yen Intervention

In the history of intervention and market stability, the Japanese Yen is significantly different because of carry trades in Yen. Japanese authorities had historically intervened to prevent the yen from strengthening too much, as a strong yen hurts the export-reliant economy. Table 1 shows that Japanese authorities or Ministry of Finance (MoF) had historically intervened to prevent the yen from strengthening too much, as a strong yen hurts the export-reliant economy. In 2003-04, a massive intervention occurred with yen sales and dollar purchases, and it was estimated that almost 17 trillion yen in assets were sold to weaken the yen with the purpose of keeping Japanese exports more competitive (Spiegel, 2003). This intervention was considered sterilised as MoF bought USD in exchange for yen backed up by yen assets issued by MoF. Also, in this context, a paper by Gerlach-Kristain et al. (2012) argues that the 2003-04 intervention created an oversupply of USD in Japan, which was used for buying the holdings of US Treasuries by Japan's MoF, which led to lower long-term interest rates in the US. Similarly, in November 2011, when USD/JPY depreciated to the level of 75 (or yen appreciated), the yen was sold massively to prevent further appreciation. This trend changed in 2022 when Tokyo stepped in and bought yen to defend its value, after the currency plunged on expectations that the BOJ would keep interest rates ultra-low even as other central banks tightened monetary policy to combat soaring inflation.

Table 1: YEN Intervention and Level of USD/JPY

Time Line	*Intervention in Yen*	*Level of USD/JPY (Reuters Data)*
1991-92	BOJ Intervention happened to support the Yen; BOJ sold dollars in support of the Yen	USD/JPY fell from the 141 level to below the 120 level
1997-98	Asian Financial Crisis pummels YEN: BOJ Intervention to support Yen. Money brokers reacted in trading at a Tokyo brokerage in 1998. The dollar in Tokyo trade due to aggressive dollar-selling intervention by the BoJ	USD/JPY touched 147.35 on 11th August, and in October 1998, USD/JPY fell below the 120 level.
October - November, 2011	BOJ sells yen, just before a massive monetary expansion	USD/JPY traded at the level of 75.
September-October, 2022	Yen nears 152 against the dollar; Japan intervenes by selling USD	On 21st October, 2022, the USD/JPY traded at the level of 151.94

Time Line	*Intervention in Yen*	*Level of USD/JPY (Reuters Data)*
April 29, 2024	Suspected intervention after the yen falls to a 34-year low against the dollar. BOJ sold USD in support of Yen	On April 29, USD/JPY traded at the value of 160.03
July 30 – August 4, 2026	Japan's Ministry of Finance and the US Treasury conduct coordinated yen-buying intervention	USD/JPY level was at 163.83 on 24th July and 163.82 on 29th July, 2026

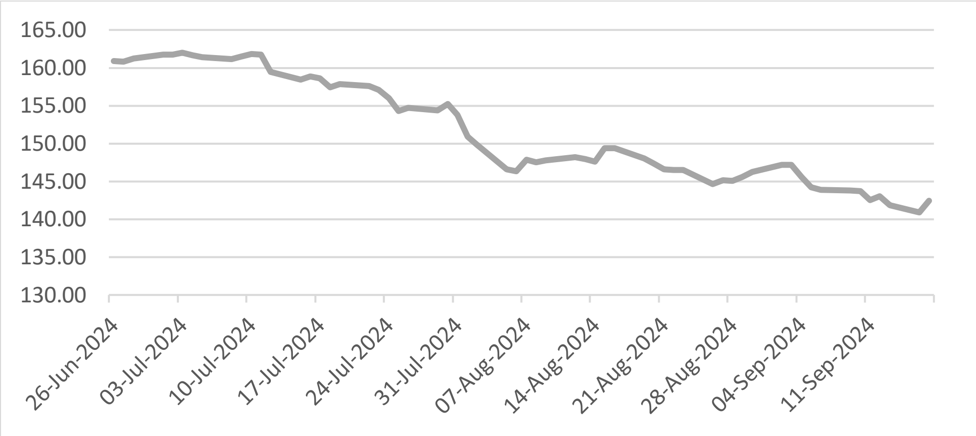
Source: Collected from Bloomberg and Reuters Data

Japan's currency had been under significant depreciation pressure for a prolonged period before the intervention in July 2026. This trend was influenced by several factors commonly seen in recent yen cycles: first, a substantial gap between the US and Japanese policy rates that favoured dollar-denominated carry trades; second, high energy and commodity import costs that expanded Japan's trade deficit; and third, concerns about the sustainability of Japan's fiscal position. Speculative positioning also intensified the situation. According to Rabobank (Alcala, 2026), net short positions in the yen had reached their highest level since 2024 in the lead-up to the intervention, leaving the market overly one-sided and vulnerable to a sharp reversal once official buying began.

3. YEN Carry Trade Unwinding: Intervention Mechanism and Scale of Operations

It is important to understand that, aside from direct intervention by selling USD, the BoJ can raise interest rates to narrow the interest rate differential between the US and Japan. A high interest rate differential with the Yen interest rate at zero or near zero is one reason for the Yen carry trade, in which investors borrow at almost no cost in Yen and convert to USD to invest in dollar-denominated assets. As a result, if the interest rate differential between USD and YEN narrows, the carry trade is expected to unwind, leading investors to buy YEN to repay their borrowings. As a result, YEN appreciates against the dollar. Recent interest rate changes have had significant implications for the Japanese Yen, potentially halting its long-standing depreciation. Beginning in March 2024, the Bank of Japan made a pivotal decision to adjust interest rates from an unprecedented -0.1% to a range of 0% to 0.1%. The BOJ increased its short-term policy rate by 25 basis points from a range of 0–0.1% to 0.25% on July 31, 2024. Chart 1 shows the USD/JPY movement during the unwinding of the carry trade, during which YEN fell from the level of 161 to 141 between June and September, 2024.

Chart 1: USD/JPY Unwinding of Carry Trade: Interest Rate Hike by BoJ in 2024



Source: Reuters Daily Data

This historic move marked a key step in phasing out Japan's long-standing negative interest rate and massive stimulus framework. This shift marked the start of a gradual increase in borrowing costs that continued over the subsequent years. The chronology of interest rate change by Japan has been represented below

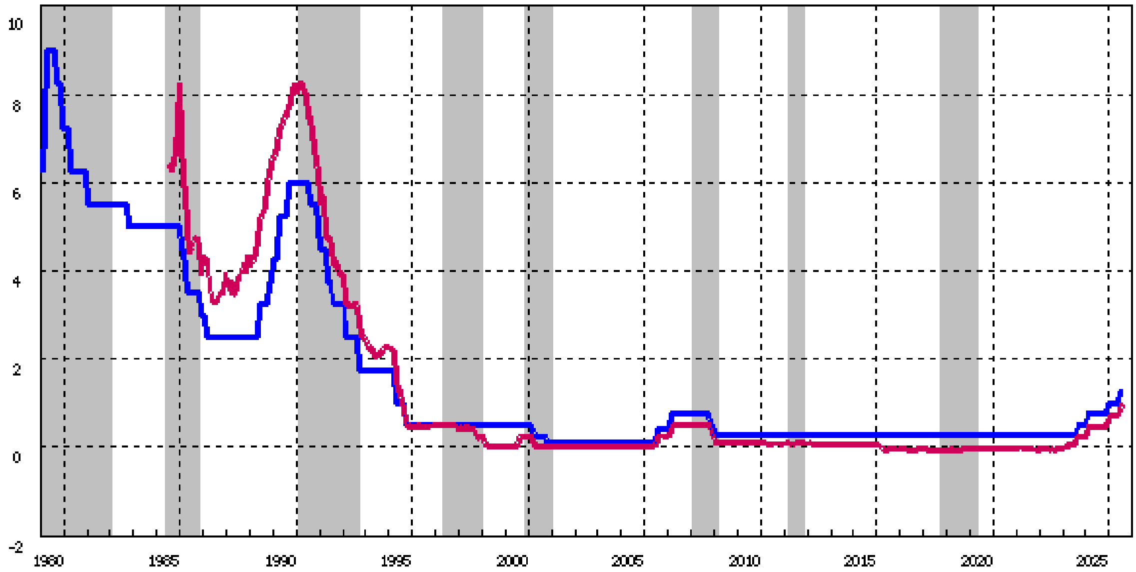
Table 2: Interest Rate Hike by Bank of Japan

June 16, 2026	Raised by 25 bps to 1.0%
December 19, 2025:	Raised by 25 bps to 0.75%
January 24, 2025:	Raised by 25 bps to 0.5%
31st July, 2024	Raised by 25 bps to 0.25%

Source: Collected from BoJ Time Series Data Search

From Table 2, we can see that in the last two years, the BoJ has increased the interest rate four times by 0.25% each time, starting from July 2024 to June 2026. By December 2025, rates had risen to 0.75%, and by June 2026, they climbed further to 1.0%. This noteworthy increase in interest rate refers to the highest borrowing cost in Yen in more than three decades. Chart 2 shows time-series data for Japan's basic discount rate and basic loan rate since the 1980s. It clearly indicates that the BoJ kept the interest rate at zero or near zero for almost two decades since 1995. However, before 1995, the yen averaged 6-8% interest rates in the 1980s and 1990s.

Chart 2: Historical Movement in YEN Interest Rate



Source: Statistics for BoJ Data

Accompanying this development, Chart 3 illustrates the fluctuations in the USD/JPY exchange rate during the first phase of interest rate hikes by Japan. It reflects the dynamic shifts during the unwinding of the carry trade and highlighting the market's response to these significant monetary policy changes.

Chart 3: USD/JPY Level during 2024 January to 2026 August

Source: Daily data from Reuters

3.1 Coordinated FX Intervention

Table 3 shows the step-by-step intervention in yen when the yen depreciated to 163.73. In this context, it may be argued that the market was expecting intervention by the BoJ. According to market analysts, Tokyo's interventions to buy yen were particularly significant. As on the day of the coordinated intervention, authorities bought several trillion yen to stabilise the currency.

Table 3; Timeline of the Intervention Episode

Date	*Development*
Thu, Jul 30, 2026	There was an intensification of pressure of Tokyo as USD/JPY touched a fresh 40-year high near 163.73.
Fri, Jul 31, 2026	A coordinated intervention was conducted by Japan's Ministry of Finance and the US Treasury. With several trillion yen in buying (as confirmed by BoJ data), the USD/YEN pair retraced to roughly 157.57.
Mon, Aug 3, 2026	There was a public confirmation about the joint operations by Japan's Finance Ministry and US officials, including President Trump and Treasury Secretary Bessent. There was also a signal given to the market for its readiness for further coordinated action if disorderly moves resume.
Tue, Aug 4, 2026	USD/JPY consolidates in the mid-155 to 157 range as markets digest the intervention and weigh the durability of the yen's rebound.

Table 1. Reported sequence of events, based on Reuters, CNBC, Al Jazeera, NPR, and Bloomberg coverage of August 3–4, 2026.

Japanese authorities are estimated to have spent almost $74 billion in late April to support the currency after two months of steep yen declines (Yokoyama and Glass, 2026). The resulting rebound was short-lived. Consequently, the Central Bank data released on Monday (3rd August) indicated that Japan may have spent as much as $36.58 billion buying the yen during Friday's (31st July) joint intervention. The U.S. Treasury carried out cross-selling of the euro (Yamazaki and Kihara, 3rd August, 2026). This kind of twist, in some analysts' view, undercuts the efficacy of U.S. participation because it invariably leaves markets wondering why the U.S. didn't fund the Yen buying out of Dollars (Wilkins, 2026). Estimates of the dollar value of the US Treasury's direct involvement in currency operations are relatively modest in absolute terms. According to Brown Brothers Harriman (BBH) Tokyo, the Treasury's purchases of yen are estimated to range between five and ten billion dollars (Haddad, 3rd August, 2026). This figure highlights that the operation's true impact did not stem primarily from the sheer volume of dollars spent by the US. Instead, the significant influence stemmed from the strong signalling effect of the clear, visible coordination between the two nations.

History shows that joint FX interventions are effective, and investors should align with the official direction rather than oppose it. Since 1998, all three coordinated US FX intervention instances have been successful (Table 4).

Table 4: Coordinated FX Intervention by the US: History

Date	*Event*
On June 17, 1998 (Japanese YEN - Coordinated intervention)	A total of $833 million of Yen was sold by the US to support the reversal of JPY depreciation. This was a coordinated intervention by the US in coordination with the Japanese monetary authorities. USD/JPY ultimately peaked at 147.66 on August 11, 1998, and bottomed out at 101.25 on November 26, 1999.
On September 22, 2000 (Euro – Coordinated intervention)	A total of €1.5 billion was bought by the US against the dollar to prevent the Euro from depreciating further. The ECB and the monetary authorities of Japan, Canada, and the UK conducted this coordinated intervention. EUR/USD ultimately rose from 0.8230 on October 26, 2000, to 1.6038 on July 15, 2008.
On March 18, 2011 (Japanese Yen – Coordinated Intervention)	A total of $1 billion was bought by the US against Japanese yen to prevent JPY strengthening following the March 11, 2011, earthquake in Japan. This joint intervention was coordinated with Japanese monetary authorities, the ECB and the monetary authorities of Canada and the UK. USD/JPY ultimately rose from 75.35 on October 31, 2011 to 125.86 on June 5, 2015.

Source: Haddad, Elias. (2026). Drivers for the Week of August 3, 2026. Published by BBH.

The broader historical contexts include the significant events known as the Plaza Accord of 1985 and the Louvre Accord of 1987. On September 22, 1985, a coalition of the United States, France, Japan, Germany, and the United Kingdom came together to implement a coordinated effort to weaken the US dollar against both the Japanese yen and the German Deutsche Mark. This strategic move was intended to address and rectify the growing trade imbalances affecting international commerce at the time. However, as the dollar depreciated more sharply than anticipated, the same group of nations, along with Canada, convened again and formalised the Louvre Accord on February 22, 1987. The aim of this agreement was to stabilise the currency values and promote a more balanced economic landscape.

3.2 The FIMA Repo Facility as a Policy Tool

The FIMA Repo Facility[2] has been established by the Federal Reserve as a repurchase agreement facility for foreign and international monetary authorities. Initially, the Federal Reserve established this as a temporary facility on March 31, 2020, and made it a standing facility on July 28, 2021. The FIMA Repo Facility allows FIMA account holders—comprising central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York—to enter into repurchase agreements with the Federal Reserve. Under this facility, FIMA account holders receive temporary dollar liquidity, which helps alleviate pressures in global dollar funding markets that could affect financial market conditions in the US. In other

[2] Available at https://www.federalreserve.gov/monetarypolicy/fima-repo-facility.htm on 14th August, 2026

words, the FIMA Repo facility serves as a liquidity backstop for countries in need of dollars, helping the overall smooth functioning of financial markets. So, the countries in need of USD do not need to sell off their U.S.-denominated treasury securities in the open market. Rather, under the FIMA Repo Facility, approved FIMA account holders can temporarily exchange U.S. Treasury securities held with the Federal Reserve for U.S. dollars. These dollars can then be made available to institutions within their jurisdictions.

This policy tool became significant for the U.S.-Japan bilateral intervention by reducing the need to sell Treasury holdings outright to fund yen purchases, thereby limiting any upward pressure on U.S. Treasury yields that outright sales could cause

5. Market Reaction on Coordinated Intervention by the US and Japan

5.1 Rabobank — Positioning Unwind

According to Alcala (2026), Rabobank's foreign exchange team analysed the market situation, which was heavily short in Yen. They noted that net short positions on the Japanese yen have reached their highest levels since 2024, shortly before the coordinated intervention of the US and Japan in the currency markets. In anticipation of the next release of positioning data, the bank predicted a notable shift in these positions, reflecting the short-covering trend commonly observed following major official interventions. This suggests traders may be rushing to close out short positions in response to heightened market volatility and shifting sentiment in favour of the yen.

5.2 Mitsubishi UFJ Financial Group (MUFG)— A More Credible Backstop

MUFG/BTMU[3] placed more confidence in the involvement of the FIMA repo facility, considering the facility as a more credible backstop. It may be noted that Finance Minister Satsuki Katayama's comments confirmed Japan's intent to draw on this Federal Reserve facility going forward (Shan 2026b). According to MUFG/BTMU, Tokyo's interventions received greater credibility due to explicit support from the US. According to the bank, this facility would make future interventions more effective. Without it, sustained yen buying would require Japan to draw down or sell US Treasury holdings, an action that risks pushing up US yields at a moment when Washington is also sensitive to Treasury market conditions. Access to short-term dollar funding against Treasuries as collateral, rather than outright sales, allows Tokyo to fund intervention while leaving its underlying Treasury holdings largely intact — a design that aligns the interests of both governments and, in the banks' view. Also, if effective intervention makes the yen stable, it would require Japan to intervene less often and sell fewer Treasury holdings. MUFG/BTMU conclude that the yen is likely bottoming out, with the combined threat of further joint intervention and a potentially faster pace of BoJ rate increases expected to discourage speculators from rebuilding large short positions.

In other words, coordinated intervention increases the odds that the market takes the intervention threat seriously without requiring it to be used at full scale repeatedly.

[3] Mitsubishi UFJ Financial Group, a major Japanese financial group. BTMU (Bank of Tokyo-Mitsubishi UFJ) was its core commercial bank. BTMU changed its name to MUFG Bank in July 2018 to match the global brand.

5.3 Brown Brothers Harriman (BBH) — Official Flow Carries Weight

According to BBH, the traders have to follow the historical trend of joint intervention. Coordinated FX intervention has tended to be effective so far, and market participants are generally better served aligning with official flows than positioning against them. However, BBH also links this joint intervention to a broader perspective serving the Federal Reserve's inflation-fighting credibility, arguing that market doubts on that front, combined with the suspected joint action, contributed to broader dollar softness.

5.4 UOB Group — Cautious, Levels-Based View

UOB Group assesses that the intervention stabilises the USD/JPY from further depreciation and potential risks for this currency pair lean toward a downward move, while highlighting 155.00 and 154.10 as critical levels to monitor. In reality, the market has seen a rebound in the USD/JPY rate. Although downward momentum has diminished following a recent rebound, UOB maintains its current perspective. They indicate that this outlook will remain unchanged unless the pair breaks above the resistance level set at 160.00.

6. Market and Macro Implications

The recent intervention has several implications, based on the analysts' combined assessments. First, the shift in the positioning risk. The market had largely speculative short positions in Yen, which were stretched before the intervention. The intervention led to the unwinding of the short positions, which itself has been a meaningful driver of the yen's rebound, independent of any change in fundamentals. Second, the market is positive about the credibility of the joint backstop, which was reinforced by the FIMA facility and public statements from both governments, the US and Japan. So, if needed, intervention is more likely, which would stabilise the yen further. Third, the path of BoJ policy remains central; a faster pace of rate increases would reduce the interest-rate differential that has been the primary driver of yen weakness, reinforcing the intervention's effect rather than leaving it to stand alone. Finally, questions remain about how sustainable the rebound is: some commentary cited in market coverage cautions that intervention addresses volatility rather than the underlying drivers of yen weakness, and that a durable trend reversal would likely require clearer signals on both monetary policy and fiscal direction from Tokyo.

7. Conclusion

The coordinated intervention by the US and Japan in late July and early August 2026 marks a significant shift from Japan's previous unilateral yen-buying operations. The support from the US Treasury, along with Japan's plan to utilize the Federal Reserve's FIMA repo facility, has been interpreted by strategists at MUFG/BTMU, BBH, Rabobank, and UOB as a potentially meaningful turning point for the currency, although it is not yet definitive. Effectively, both the US and Japan have intervened to support the Japanese Yen without directly exhausting their dollar holdings or assets. The sustainability of the yen's gains will depend on several factors, including the unwinding of stretched speculative positions, the credibility of the joint intervention ,the inflationary pressures and, most importantly, whether Japanese monetary policy acts decisively enough to close the interest rate gap that has contributed to the yen's prolonged depreciation.

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