Goldman Sachs Exchanges

What the US-Japan Currency Intervention Means for the Yen, Rates, and the Dollar

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Date of recording: August 10, 2026

Allison Nathan: The United States and Japan have coordinated the largest currency market intervention in 15 years to help stabilize the yen. After more than five years of yen weakness, it's left investors asking the question: why now?

I'm Allison Nathan, and this is Goldman Sachs Exchanges. To understand the why and the knock-on effects for currency markets, I'm sitting down with my colleague in Goldman Sachs Research, Karen Fishman, and Praneet Shah, who leads foreign exchange options trading within our Global Banking & Markets business. Praneet is joining me from London, and Karen is here with me in the studio. Karen, Praneet, welcome to the program.

Karen Fishman: Thanks for having me.

Praneet Shah: Thanks, Allison

Allison Nathan: Karen, let's first level set for the generalist. Talk us through what happened and why this is a big deal.

Karen Fishman: Yeah. So, on July 30th, Japan conducted or began its biggest intervention in the FX market in 15 years. So, they sold US dollars to buy Japanese yen in an effort to halt the weakening that we've seen over much of the past year, but especially over the past few months when the yen hit 40-year lows versus the US dollar. And this was a big deal for both its size and its scope. So in terms of the size, we won't have the official numbers for another month, but we can use indirect data to get a broad sense of how big it was, so things like interdealer trading volumes and BOJ data.

And so there are a number of figures floating out there, but we've estimated over the first couple of days, so July 30th through July 31st, that it probably amounted to up to $85 billion, and maybe there was a bit more done on August 3rd as well, since volumes were elevated that day too.

And so to put these numbers into context that would be Japan's biggest two-day intervention in the FX market on record outside of October 2011, which was in the aftermath of the Fukushima disaster. And then in terms of the scope, it was also coordinated with the United States, as you mentioned.

And this type of joint action hasn't been taken also since 2011, a week after the Fukushima disaster. And actually, I think it's worth noting that also that intervention was coordinated across the broader G7, so this is just the US and Japan, so maybe a little bit less significant from that

perspective. But of course, the US' involvement is significant nonetheless.

Allison Nathan: I want to dive into so much of that, but let's just take a step back for one moment.

Why has the yen been so weak, for people who don't follow it that closely?

Karen Fishman: Yeah. It's mainly a consequence of Japan's domestic policy mix.

The government is pushing through big spending plans, and the Bank of Japan has been hiking interest rates only very gradually over the past couple of years. Markets view that combination as inflationary, so in other words, those rate hikes are insufficient to contain the rising inflation risk. And so if inflation is rising and rates aren't keeping up, real returns go down, and so investors move their money elsewhere or even bet against the yen, and so that's pushed the yen weaker.

Now, it hasn't just been the domestic policy mix that's been weighing on the yen, its also been a function of the broader macro backdrop. And really, despite all the volatility we've seen at periods throughout this year around AI, oil, and Fed expectation, we haven't really seen recession odds go up, and so you haven't really seen that demand for safe haven assets like the yen. And also similarly strikingly, FX volatility has remained very low, and so that's a good environment for carry trade.

So, investors have been leaning into those. So, buying higher-yielding currencies and selling lower yielding currencies like the yen.

Allison Nathan: But remind us why a weaker yen is something Japan doesn't want.

Karen Fishman: So a weaker yen makes imports more expensive. So think higher prices at the grocery store, higher gas and electricity costs, more expensive overseas travel. All of these things weigh on households and businesses. Now it also raises government borrowing costs, which is I'm sure a focus as well.

At the same time though, it is beneficial for exporters and also tourists coming to Japan. But from a broader economy perspective, it raises the cost of living.

Allison Nathan: Right, so the case of Japan's interest in this intervention, I think is pretty clear, as you just said. But why does the US want to be involved? What does it get from a stronger yen, a more stable yen?

Karen Fishman: Yeah. No, that's a great question, and I would just start off by saying that volatility in one market often spills over into global markets.

So, a weaker, more volatile yen, should mean a stronger, more volatile dollar, and that can raise financial stability concerns, weigh on growth expectations, and then amplify those initial concerns, so you can kind of see how that would be an undesirable mix. But I think, really the key question has been what to make of the US' involvement, and that's been a bit of a debate.

On the one side, coordinated intervention often signals some alignment of policy goals, and intervention is often most effective when it signals an imminent shift in policy,

So, monetary policy expectations usually. And the Bank of Japan has signaled already its openness to a faster pace of hikes, and so markets have taken this as a reason to put higher odds or really think that it's more likely than not that the Bank of Japan will be hiking rates again at its next meeting in September.

And I think that's fair to some extent, but the other side of the debate is that the US' involvement is more about maintaining the volatility or limiting the volatility in US markets. And there are really three reasons why that's a more compelling explanation to us.

First, the US administration has been encouraging the expansion and use of the Fed's facility that allows central banks to raise dollar cash by selling their US Treasuries to the Fed and then agreeing to buy them back later. So basically, this would be a way for Japan to avoid putting abrupt upward pressure on US interest rates by having to sell US Treasuries on the secondary market to raise that cash for intervention.

So I think that's probably the clearest example of US market functioning being a top concern. The second reason is the timing of the US' support for Japan. So basically, Japan has made a few efforts this year to support the currency, and it seems like the US has joined in on those efforts when there has also been upward pressure or some volatility in US interest rates.

So just to kind of quickly walk you through that, back in January, both Japan and the US signaled to the market that they might intervene, but then they ultimately didn't. Then in April, Japan did intervene, but on its own. And then, of course, now in July, Japan intervened in big size and the US did join in. And both in January

and in July, there was some more volatility in US interest rates going into those periods of action, whereas in April there wasn't. And so I think that pattern also clearly shows that market functioning is a key consideration. And then the final one is just the scale of the intervention.

It looks to be a lot smaller, the US' operation relative to Japan, and so also the timing of the intervention in the market wasn't choreographed like prior coordinated interventions have been. And so it does seem to really be more about the signal of support and ultimately the US' focus on market conditions rather than taking a strong view on where the yen should be.

Allison Nathan: Put some numbers on that for us that the US leg of this intervention was a lot small than the Japanese leg.

Karen Fishman: So we don't have the official numbers yet. And so similarly, you can kind of rely on traded volumes and price action, and ultimately it just looked a lot smaller. And historically, coordinated interventions or the US' participation in these coordinated interventions tends to be a lot smaller.

It's been historically around one to two billion dollars. So again, more about the signal than actually driving the currency in a certain direction.

Allison Nathan: Praneet, let me bring you into the conversation. You were sitting on the trading floor in the middle of all this as this intervention was unfolding. What did that look like in terms of volumes and moves? Walk us through it.

Praneet Shah: Thanks, Allison. It's useful to split it into two parts. If you first look at the MOF, which is the Japanese Ministry of Finance, they intervened on the Thursday and the Friday. Like Karen said, it's $60 billion on a Thursday and around $25 billion on the Friday. We think there's another $20 billion possibly on the Monday as well, and this compares to about $30 billion average daily volume traded in the market.

So it's pretty sizable in comparison. You can also look at a second part of this. You can see how much we think actually traded in the market overall. The best way to get an idea of this is EBS, which is the main spot exchange that we look at. That typically trades around $5 to $10 billion a day. So when we look at the actual numbers that were posted on the Thursday and the Friday, it was about $90 billion on the Thursday and $80 billion on the Friday.

So even more sizable in comparison to what a usual day looks like. So you can imagine what we saw on the trading floor, I think it was one of shock and surprise. When you look at the size of the moves, 3% was the move that you saw between Thursday and Friday. That's more or less in line with a usual episode of intervention from the MOF.

I think what took us a bit more by surprise was the subsequent 2% move thereafter once there were some signs that there was coordinated intervention with the US. I think despite the fact, as Karen just said, that the volumes actually weren't that large from the US side, I think that symbolism to us is actually quite interesting to look at because they managed to move it 2% despite significantly less volumes compared to the $85 billion that the MOF. The last point to note is in terms of the

loss of momentum, the market was really looking at this 200-day moving average in yen. We managed to breach below 158, and I think that's another symbolic level to just show the extent to which they managed to move the currency that day.

Allison Nathan:. Right, so when you talked about the 2% move, 3% move, we're talking about the dollar/yen exchange rate, just to be perfectly clear.

So, Praneet, how did clients respond to this? What were they motivated to do? What were they forced to do?

Praneet Shah: I think the response on Thursday, Friday was one of shock and surprise. I think the actions, especially on Thursday, caught the market off guard. When we say we estimate around $60 billion was transacted by the MOF, when you actually drill down into how it was done, it was all done in a very short space of time, which is very unusual compared to past episodes of intervention.

So I think that surprise was the main thing. When you look at the factors such as there was no forewarning before they did it, unlike April, May, the past intervention. Realized vol wasn't that high, unlike previous episodes. When you look at the level of dollar/yen at 164, it had traded earlier that month.

So these are all conditions that had set the scene such that traders on the seat didn't really expect this to happen, and you had the Bank of Japan expected to set interest rates on the Friday. Again, it's very rare that they've intervened the day prior to that actually happening.

Now, when you look at the price action after, the first round of flow we saw was cutting from the leverage community. So, if you look at the reasons to want to be long dollar/yen, the main reason has been carry. So you get 2% or to 2.5% of annualized carry, but you also get another element of spot appreciation in dollar/yen exchange rate.

Now, if dollar/yen just suddenly gaps 3% lower in a given day, that's your entire annualized carry just wiped out in one move. So, for risk management considerations, if you're levered in terms of a hedge fund or a CTA, you really do end up needing to stop out. And I spoke about that 158 level, which was the 200-day moving average, and I think that was a key catalyst on the Thursday and the Friday that really did cause people to cut positions.

We actually had some data out today from the CFTC when you look at positioning. It's actually the fourth largest absolute reduction in yen positioning in the 20-year history that you've seen, so it does really put some context into how much squaring you actually did see in this episode. I think the other thing to note is euro/yen is where we've actually seen a lot of interest from clients.

Usually it's dollar/yen, which is the main liquid pair. If you actually look at what they actually did in terms of the intervention, like I said before, dollar/yen actually had traded 164 prior in the month in July, but 187.50 to us looks like a key level in euro/yen. It triggered the April to May intervention back a few months ago. And again, it traded on that Thursday and it again looks like it triggered the intervention there.

So clients have been much more willing to play yen strength looking at the cross euro/yen rather than dollar/yen.

Allison Nathan: And is that because also US involvement here. Is it a factor in their decision-making?

Praneet Shah: Yeah, I think that that goes some way, into looking at it. When you have coordinated intervention, I think it's more powerful than unilateral intervention. I think if you, if you think that the MOF were targeting themselves the euro/yen exchange rate, you now just have the added kicker that you also have the US side looking at that cross as well.

And if I take a step back, the initial flow we actually had seen was the same April to May playbook. I think the market had seen a dip lower in dollar/yen, and the first instinct was for many to just buy the dip and to play for a grind back towards 164. But I think last week when you look at our flow, it's been surprising to me how mixed and balanced it actually has been.

You've seen really good two-way interest where half our client base want to play for continued yen strength, targeting a move even down to 150 in dollar/yen and a 5% move in euro/yen as well. But the other half really just want to buy the dip, and it's a view that nothing structurally has actually changed here. It just takes the wind out of the short-term move in the yen.

Allison Nathan: I want to ask you more about that, Praneet, because I mean, ultimately, as you're looking at this price action, does this intervention or interventions broadly that we've observed work, given that a lot of the gains have already been given back?

Praneet Shah: Yeah, so I said it's moved 5% from high to low, and now when you look at the price today, it's only now moved 3% net. I think the effect it has had is one in which it stabilized the exchange rate rather than fully reversing the structural weakness. I think that's important to differentiate. And I think if the BOJ and MOF were just targeting more stabilization rather than a rapid appreciation, you could argue that this has been successful.

The 3% move is just in line with past episodes, but they have had much less bang for buck. We've said that they've intervened in much larger size and they've achieved the same net outcome. So they probably will be a bit disappointed by that. I think it's worth also looking at the options market. So when you look at the implied moves from the options market, there's still significant risk premium in two-week to one-month yen call options.

What that basically tells you is that there's still heightened sensitivity by the market that you could get a rapid gap move lower in dollar/yen and euro/yen still. So I think the market is still really worried about the fact that there could be this sharp move in yen, and I think that's going to be quite good for the BOJ and the MOF.

If spot is trading up into 160, there's a real risk that you don't want to continue selling yen when you've got this large risk of a drawdown still priced by the market.

Allison Nathan: And Karen, what do you make of all this in terms of the effectiveness of the intervention? Can it be a sustainable fix?

Karen Fishman: So no, it's not a sustainable fix. It ultimately just buys some time. So basically, it pushes investors or forces investors out of their positions and

then ultimately leads to some more muted performance thereafter as investors are wary of additional intervention and ultimately are more reluctant to get back into those positions.

But, what we've said is that if there's no subsequent policy shift, those existing pressures on the currency tend to reemerge.

And that's actually exactly what we saw happen after the prior intervention earlier this year that Japan conducted on its own at the end of April and early May, where ultimately within a few months, the yen was hitting 40-year lows.

Allison Nathan: So do we think another intervention is potentially on the table, potentially likely? And I think a question that's being asked is: How much capacity does Japan actually have to continue these types of interventions given the size and scale of it?

Karen Fishman: So in terms of the likelihood, it's always hard to know for sure, but Japanese officials have said that they won't hesitate to get back in if they feel the need.

And I do think that there's some credibility when there was coordinated intervention. But in terms of the capacity, the short answer is they have plenty. But just to kind of give you some numbers around that, you know, Japan has about a trillion dollars worth of FX reserves in US dollars, and we've estimated that about $200 billion of that the likely size of this intervention, is in cash or cash equivalents.

So they already have at their disposal enough to do another couple rounds of what we just saw, which again, were near sort of record size. And then theoretically if they are able to use the Fed's facility, then they would have access to that full trillion dollars in sort of a more liquid way.

Now, realistically, they wouldn't come close to using all of that, but I think that just sort of hits home the point that they have plenty of capacity to keep intervening if they wish.

Allison Nathan: So plenty of capacity, but Praneet, there are other measures being discussed among clients and on the trading floor in terms of what else Japan might do here. Talk to us through some of that.

Praneet Shah: Yeah, I think Karen mentioned it previously, but the FIMA facility at the Fed has really caught a lot of clients' attention here. I think when you look at the composition of the reserves, $1.2 trillion, $200 billion were readily available in cash. But this facility, I think there's more of a signaling impact from it.

When you unlock a trillion dollars of the balance sheet that potentially now can be used for ready intervention, that's one of the main reasons that clients really did get quite bulled up on the yen earlier last week. And look, the overwhelming driver of the exchange rate has really been the carry differential.

So you can split that up into two paths. So one, you look at the path for Japanese interest rates. The market is extremely focused on the September Bank of Japan policy meeting now. So there's a 65% chance that they hike 25 basis points. That I think they really do need to

deliver on, and that's one of the key variables now, I think.

You've got 40 basis points priced in terms of hikes into year-end. Again, I think the Bank of Japan is really going to need to hike faster than expected if they really want to address one of the medium-term drivers. And then you've got the other aspect of it. You've got the US side of the equation. You've got energy prices are an input into that.

You've got CPI inflation you get later this week. If you happen to get a cooling in price pressures in the US, I think that is something that clients will look at in helping take some of the stress away in some of this pressure in yen weakness. So, I think if you rewind back to July 2024, that was quite interesting.

You saw a miss in US CPI and one of the most effective rounds of BOJ MOF intervention was actually on that miss in US data, and you also had the follow-up in the payroll miss as well straight after. So I think this week's going to be important. I think it's worth keeping an eye on the US side of the equation as well, and any misses, I think the market will really start to increase expectations of a subsequent intervention later this week.

Allison Nathan: And Karen, do you share Praneet's view in terms of the importance of this BOJ meeting, and what do we expect there?

Karen Fishman: What I'll say is over the past few years, Japan has been intervening in the FX market, and it's still depreciated. And so I think that's been a clear reflection of this point I just earlier made, that it only buys some time unless subsequent policy changes occur.

And so that being said, though, I do think that we could see stronger yen levels for longer if we do see some follow-ups to this event. Intervention alone really isn't enough. But one of those things would be a hike in September. If they don't deliver that, that would put renewed downward pressure on the yen. But then I think you would need to see also some other shift. So whether that's global growth market worries emerging, whether that's around AI or not just a reason to see an increase in safe haven asset demand that could be sufficient. But, otherwise, I think it would have to be something else on the domestic policy front.

And related to that the Japanese administration has reportedly been focused on encouraging Japanese investors to shift back to domestic assets, and that would be a big deal since over the past decade those Japanese investors have been raising their share of foreign asset holdings at the cost of domestic asset holdings. So and that's part of why, actually, I should note that the yen has been weak on our models or undervalued on our models. And so if that were to reverse that would be a meaningful source of more sustained yen appreciation. But I think there are a few hurdles to that.

And these things tend to take some time and most importantly, return prospects abroad are still more attractive than Japanese assets. But if that were able to occur, I think that that would lead to a more sustained period of yen strength.

Allison Nathan: I was just going to say, it's perfectly rational that Japanese investors were looking beyond because of the return profile elsewhere.

Karen Fishman: Absolutely.

Allison Nathan: And that isn't necessarily shifting.

Karen Fishman: Correct.

Praneet Shah: And let me add, it's also worth looking at the valuation versus momentum differences here. So when I talk about that, one, so far I've only really spoken about the momentum trade in yen. You've had 45% depreciation over the last five years, so that's an 8% compounded annual depreciation in the yen. So if you're a Japanese investor, that really is something that you're up against, and you need to change the perception of why you should invest domestically rather than abroad.

Because look, let's face it, foreign assets have, A, been a better store of value for them, and B, just provided much more attractive rates of return. Now, when I talk about the valuation component, we can split this into two parts. So one, the currency's actually starting 25% undervalued on a long-term valuation basis.

And two, when you actually look at JGBs now, for a Japanese investor on a 10-year JGB, you actually earn 100 basis points of extra yield when you compare that to a 10-year US Treasury currency hedged. So, you've not only got the valuation working for you, you've also got the undervaluation of bonds and equities in the Japanese market.

So look, I think if you can reverse this momentum weaker in the yen, I do think there is something there where policymakers, if they get the decisions right, can reverse this trend and actually create some structural yen strengthening in the next few years

Allison Nathan: Let me just flip the script a moment and talk a little about the dollar outlook, because there's also been some discussion that the Treasury's intervention and actions here could undermine the appeal of dollar reserves. So what do you both make of that?

Karen Fishman: Yeah, this has also been a subject of considerable debate. And the essence of the question is ultimately should this instance where the US is helping a reserve manager to sell its US Treasuries be a reason to expect that the US might hinder a reserve manager's ability to sell Treasuries in the future? We think that's a bit of a leap. Of course, unconventional policy choices can amplify concerns about institutional reliability, and we certainly saw last year how that can weigh on the dollar. But, in this case, these actions and the availability of the Fed's facility to us really just demonstrates how no other currency currently comes close to the US dollar in terms of its usefulness, network effects, and the supporting infrastructure.

Allison Nathan: Praneet, anything to add?

Praneet Shah: Yeah, I think Karen put it quite well. I think when you look at the use of this facility, the fact that it aids market function, if anything, I think actually supports the dollar's role as a reserve currency. So I'm not sure it's actually going to be a key determinant of the path of the dollar. I think what's mostly important now going into the autumn is, one, the Fed's reaction function, and two, just upcoming data.

When I look at the big pillars of the broader dollar, you've got gold, you've got CNH, you've got yen. All of them are now starting to appreciate against the dollar. So I do think we're going to now start to see a steady glide weaker in the dollar, but not due to reserve currency considerations and just more to do with the path of inflation and expected Fed reaction function going into the end of the year

Allison Nathan: Karen, let me just ask you, what's your dollar view?

Karen Fishman: Yeah. So our baseline is one of generally constructive positive risk sentiment and relatively range-bound rate differentials, decent global growth. That's a backdrop of low FX volatility, so really muted moves, and also a backdrop that's conducive to carry. So sort of a continuation of what we've been seeing. So, you know, we're projecting some further modest dollar strength against those low-yielding currencies like the euro and like the yen, but also some continued dollar weakness against those higher-yielding currencies, mainly in EM.

Allison Nathan: Karen, Praneet, thanks so much for joining us and sharing your input and wisdom here.

Karen Fishman: Thank you.

Praneet Shah: Thank you.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Monday, August 10th, 2026. If you enjoyed the show, we hope you'll subscribe to

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